BILL GREENE'S

101 NEW LOOPHOLES

THE 1982 REAGAN TAX PACKAGE

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The Reagan Tax Package is a boon to everyone.

—Bill Greene

Bill "Tycoon" Greene, nationally known author of the best-selling books *Think Like a Tycoon* and *Win Your Personal Tax Revolt* is back, still "battling the IRS for the cause of truth and justice." The Reagan tax package can be a boon to everyone, but . . . "You have to know the rules and loopholes to win the game," argues the irrepressible Greene. Here is how to win in 1982 with the new government giveaways simply stated, helpfully presented and with all the irreverent wit which has characterized Bill Greene's previous books. Unlike typical tax preparation books, this is a book of strategy, showing how any taxpayer can pay no taxes and even get refunds for previous years.

BILL GREENE BELIEVES:

—Starting your own business even if it's part-time is one of the best ways for the average "wage slave" to take advantage of the 1981 reforms.

—In spite of a current slump, real estate as a tax shelter is at least twice as good as prior to 1982.

—The All Savers Certificate is the biggest rip-off since Christmas Clubs and U.S. Savings Bonds.

—The new Accelerated Cost Recovery System (replacing depreciation) will make it possible for anyone who knows about it to avoid taxes entirely in 1982.

All this and much more in BILL GREENE'S 101 NEW LOOPHOLES THE 1982 REAGAN TAX PACKAGE.

Maverick millionaire Bill Greene lives in a rustic Mill Valley mansion overlooking San Francisco Bay. A graduate of the Wharton School of Finance, admitted to practice law before the U.S. Supreme Court, he appears regularly on radio and TV and is the best-selling author of Think Like A Tycoon *and* Win Your Personal Tax Revolt.

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HARBOR

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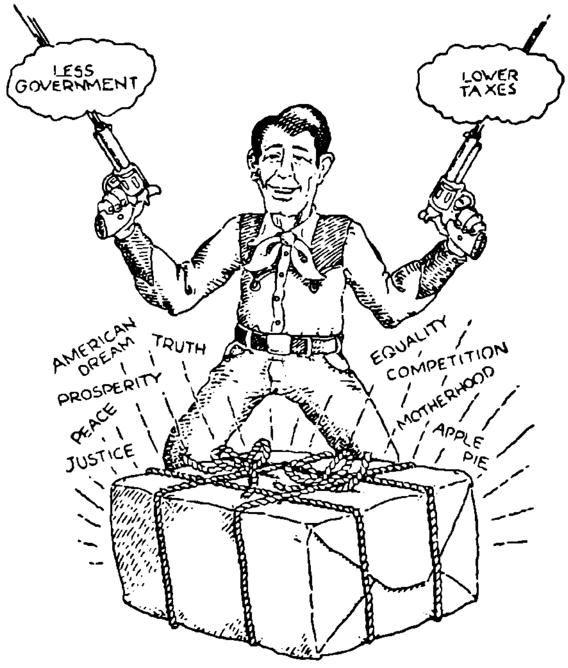

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To President Ronald Reagan

Those who elected him hoped for more individual and
economic freedom, less government, less taxes!
The Economic Recovery Tax Act is a first step.
Let's make it work.

Bill Greene

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CONTENTS

WARNING!

This book is not intended to be legal or accounting advice. It is intended to raise the consciousness of confused taxpayers to the incentives or "loopholes" available under the current complex and often self-contradicting tax laws. *101 Loopholes* is intended only to present ideas for your possible use. These ideas should be implemented in consultation with a competent tax specialist (either a lawyer or certified public accountant). It is always a good idea to get a signed "letter of opinion" from a lawyer or accountant on any loophole you use. This letter should outline the theory or code section(s) relied upon and state that your action is legal. It should list the anticipated tax benefits. The law will soon be changed, and the IRS will forget what the law was back in good old 1982–85.

If the IRS should ever put you on a "hit list," it would be difficult or impossible for them to get a fraud conviction when you had, in good faith, relied upon the written advice of a tax expert—even if it was wrong! Don't pay those IRS Vampires any more than you have to!

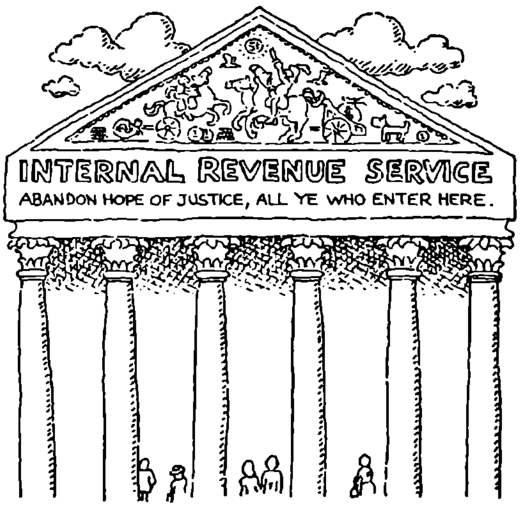
Bill Greene, January 1, 1982
Box 850, Mill Valley, CA 94942

Note

If you have any questions about material in this book, send $20 in cash along with your telephone number and the best time to call you. The author or a member of the staff will try to call, or will write you within a few days. Bill used to answer all inquiries free, but with hundreds of thousands of readers, the workload and overhead got out of hand. We hope you understand the need for a service charge.

Free Gift

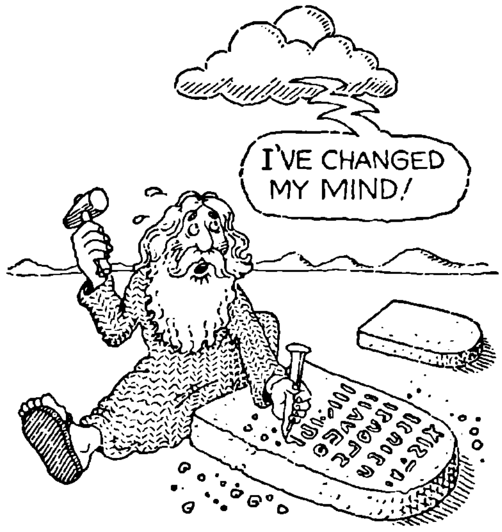
Errors are inevitable. If you find a factual error, typo, or other boo boo, let me know and I will send you a wonderful gift that you will treasure forever. B.G.


INTERNAL REVENUE SERVICE
ABANDON HOPE OF JUSTICE, ALL YE WHO ENTER HERE.

CHAPTER 1

Written in Stone

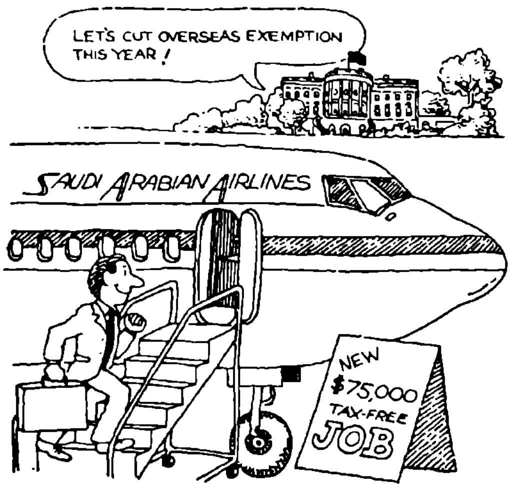
ANCIENT RULERS, at least the ones we remember and respect, discovered thousands of years ago that *stability* in law was important. The rule of law is the main factor differentiating a civilized society from tyranny by armed thugs. Laws in the "best" of ancient societies were cut in stone and put on public display. (They were short and sweet because stone cutters work slowly and get paid a lot!) Codifying and engraving laws *in stone* was symbolic of permanence. Laws "carved in stone" were not to be recarved at whim. Ancient codes lasted unchanged for hundreds, even thousands, of years. Many people feel that Koranic law or the Ten Commandments are as applicable today as when they were written. With permanent laws, ordinary people could feel secure. They had an understandable code of conduct to live by. Hammurabi, Moses and Justinian—just a few of the ancient law-givers—are best remembered for simple, sensible and comprehensible codes of public law. For some reason, Congress and the IRS have felt it is necessary to make *major revisions* of our tax laws and regulations *every year.*



Massive revisions, like the new Economic Recovery Tax Act (ERTA), take place every four or five years. Congress and the IRS have, in addition, put through a vast body of private laws and rulings making special provisions for individuals and companies who are "above the law," usually because of their political influence. In many instances some folks are deemed so "special" that special, secret laws are needed just for them. Until recently, the "private letter rulings" of the IRS were confidential. The public was not allowed to know who was getting away with what. This was recently changed. Today private laws and IRS letter rulings are theoretically available to anyone interested in reading them.

In the public sector, every Congressman, Senator or new President with a pet scheme or a utopian idea has been allowed to get it incorporated into the tax laws. The Internal Revenue Code, it's annotations, IRS regulations and rulings, law review articles, court cases and other documents are today's tax laws. They would take several lifetimes to read but, because they change so rapidly, it is utterly impossible for anyone to gain a real understanding of the body of the law before it is changed. As a result, writers like me, tax lawyers and accountants have a wonderful and profitable time translating the latest incomprehensible language of the Tax Code into something reasonably understandable.

The tax law changes so much and so often that it can't be "written in stone." Current tax laws can't be much of a guide to



"Don't make any long-term decisions based on current law."

long-term planning. "Biggies" in the tax planning field don't even issue tax books in *hardcover* any more. Even *softcover* is too permanent! Commerce Clearing House, Prentice-Hall, and even Irwin Schiff the Tax Rebel, issue their tax interpretations in *loose-leaf binders* with removable pages. Writers like me expect that the lifespan of a new tax law book may be as short as a few months. I find it interesting that Wall Street writers and others who give investment advice still talk about *long-term planning*. There is a flood of investment tips based upon who will benefit from the new tax laws. They talk as if the laws were *permanent*.

In this book, in addition to explaining the 1981 tax law, I will try to give you a little intelligent commentary. By applying common sense, you can gauge how impermanent the new laws may be. That's important! For instance, if the new $75,000 exemption of income earned abroad is likely to be revoked in two years, one would be foolish to study Arabic for a couple of years in the expectation of getting a high-paid, tax-free job in Saudi Arabia. You might get yourself hired and buy your ticket to Mecca just in time for the law to be changed!

If you are a first-time reader of Bill Greene literature, you will notice that my style is very different from other tax books. Some tax authors lay out many changes, year after year, as if they were indeed carved into stone—as if you could rely upon The Law. The truth is

that much of what is passed by Congress or put into regulations by the IRS today is out of date by the time you get the book in your hands. As a result, my books *Think Like a Tycoon* and *Tax Revolt* were something of a sensation. They took general principles of business success and tax law—the same in most countries—and showed how the "common man" could use the secrets of the very rich.

My ideas were employed by many thousands of ordinary people to make more money and avoid paying any taxes at all—legally. My second book *Win Your Personal Tax Revolt* (1981) is still an up-to-date book of over 400 pages. It is full of tax avoidance ploys and will be useful long after other books on the subject have become obsolete. If you don't already have a copy, and can't get one at the bookstore that sold you this, drop me (the author) a line: Bill "Tycoon" Greene, P.O. Box 850, Mill Valley, CA 94942. Send your check (Visa or M/C number) for $16 and I will send you a copy of either of my books postpaid by return mail. Two for $25! You can order by phone too: (415) 383-8264. Incidently, I would love to have your comments, corrections and pet schemes. If I use them, you will be rewarded handsomely with a free gift to treasure for a lifetime (or more).

I keep in touch with my readers via the *Tycoon Newsletter*. You can keep up with my latest thoughts and get one copy free by merely sending me a 40¢ stamp to cover postage (it's thick). If you want the *Tycoon Newsletter* for a whole year, toss in a couple bucks cash. If you don't find my books or newsletter useful and entertaining, I promise your money back.

With that introduction, I hope you are ready to take the plunge. Our first chapter explains the new law "at a glance." Look for the sections that apply to you. Then look again for sections that *could* be made to apply to you. The best plans to make money or save on taxes will result from your own research, your own ideas, and your own efforts. Life is a do-it-yourself project. You can get help from me and my books, but in the end, it's all up to you!

CHAPTER 2

ERTA
(The Economic Recovery Tax Act of 1981)
at a Glance

Investments: Non Real Estate

Interest and dividends (tax rate): 1/1/82

Old Rule. Considered "unearned income," and taxed at rate of up to seventy per cent.

New Rule. Interest and dividends taxed at same rate as "earned income." Fifty per cent maximum rate.

Interest and dividends (exclusion): 1/1/82

Old Rule. In 1981 single taxpayers exclude first $200 of dividends and/or interest ($400 for married couples).

New Rule. Single taxpayers exclude $100 of *dividends only* ($200 if married filing jointly). Interest exclusion now replaced by "All Saver" account.

➤If you don't have anything better to do with your money and are happy with a 50% below market rate of return on your investment, consider the All-Saver account. It is the least valuable loophole in the ERTA package. See Chapter 10.

All Saver tax-free savings account: 1981

Old Rule. Didn't exist.

New Rule. Once in a lifetime $1000 of tax-free interest ($2000 married). See Chapter 6.

➤Pitfall: If taxpayer deposits more than the amount needed to yield $1000 (or $2000 married), the extra interest will be fully taxable. For most individuals, getting higher market rates and looking for tax shelter is a better move than using the All Saver.

Depreciation—"useful life" concept abolished.
Applies to property placed in service after 1/1/81

Old Rule. IRS provided booklets of guidelines on useful lives of hundreds of categories of real and personal property. IRS often challenged depreciation life or method selected and hassled taxpayers.

New Rule. Accelerated Cost Recovery System (ACRS) mandates recovery periods as short as 3 years for motor vehicles. 150% of straight line may be elected and accelerated ACRS used *at option of taxpayer*. Five years on all other personal property. Option to use 150% accelerated ACRS. Ten years on mobile homes. Optional 150% accelerated. IRS may not challenge depreciation (now called "cost recovery") if above lives or longer lives are used.

➤The way to take maximum advantage of ACRS is to acquire property, whether real or personal, and rent it out to others. Merely getting into this area of opportunity will get you a refund of all taxes

paid during the past three years, and should shelter all income from taxes for the next fifteen years. Depreciation could always accomplish the same tax saving objectives, but the deductions are triple what they have been. See Chapter 7 for much more on this subject. It is the most important section of ERTA.

Bonus depreciation (also known as "additional first-year depreciation")
Abolished for 1981 and thereafter

Old Rule. Up through 1980, personal property purchased at any time during the year could be depreciated to the extent of 20% extra, up to $2000 per person or $4000 per married couple.

New Rule. This provision, designed to encourage investment in personal property, is now history. It is being replaced by the provision that up to $5000 may be "expensed" in the first year of acquisition.

In abolishing bonus depreciation for 1981 and not phasing in the $5000 expense provision until calendar year 1982, 1981 becomes a forgotten year, and a very bad time to have purchased personal property. Write your Congressman. I predict this oversight will be corrected by a "technical adjustment" just in time for you to have to redo your 1981 income tax return. Hold off doing your 1981 return until the last minute, to see if bonus depreciation gets a one year reprieve or "expensing" comes in a year early.

Accelerated depreciation: 1981

Old Rule. Large variety of accelerated depreciation possibilities. Rule was "reasonable." Personal viewpoint of IRS agent led to many disputes. (Declining balance, sum of the years digits, double declining balance and other methods proliferated.)

New Rule. For properties depreciated over a 3-, 5-, or 10-year life, 150% declining balance depreciation is a taxpayer option. For real property, 175% (of straight line on a 15-year life) is at taxpayer's option. This rule creates a "safe harbor" tax shelter not subject to IRS challenge.

➤If the new ACRS deductions do not give you enough deductions to shelter all income, it's OK to take accelerated depreciation on *some* properties. Be aware that income sheltered by accelerated depreciation may be subject to alternative minimum tax of 20%.

Recapture of depreciation: 1/1/81

Old Rule. Straight-line depreciation was recaptured when property sold and taxed at capital gain rate. *Excess* accelerated portion over straight-line recaptured at ordinary income tax rate.

New Rule. Under ACRS, if straight line used, recapture taxed at capital gains rates. If accelerated used, *entire* (with exception of commercial real estate) recapture taxed as ordinary income.

➤Use accelerated cost recovery system with 175% declining balance to shelter current income. Recapture can still be avoided by 1031 Exchanges (see Chapter 10).

Investment tax credits (in general): 1981

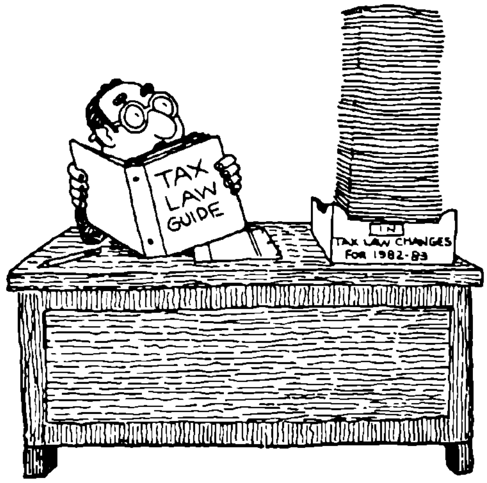
Old Rule. Credit depends on useful life of an eligible list of business property. Under 3 years, 0%; 3–4 years, 3.33%; 5–6 years, 6.66%; 7 or more years, 10%.

New Rule. Six per cent credit on 3-year property (such as motor vehicles). You can't get 10% credit by giving 3-year life property a 5-year life. Ten per cent credit on all other personal property acquired for use in business. Used property eligible up to $125,000 from 1981 to 1985; $150,000 thereafter.

➤Tax credits are much better than depreciation because they are dollar for dollar offsets against tax. The tax credits are an extra bonus, separate and apart from depreciation, and have no effect on the amount of depreciation (now called "cost recovery") that you you can take.

Investment tax credits: 1981

Old Rule. No carryback; carryforward 7 years. Used property eligible, but limited to $100,000. New property unlimited.



New Rule. Unused credits carryforward 15 years. Used property OK up to \$125,000 per year; limitation raised to \$150,000 after 1984. Tax credits on new property still unlimited.

➤You don't have to "own" property to get tax credits. If you lease and the lessor assigns the tax credits to you (or anyone else!) that's OK. Since the tax systems of other countries do not always provide for similar tax credits, leasing arrangements with foreigners can be particularly advantageous to both sides. A foreign investor can get certain credits in his country and you can get all the U.S. tax benefits.

Recapture of investment tax credits: 1981

Old Rule. If property sold, ITC is recaptured on a pro-rated basis.

New Rule. You keep 2% of credit for each year property is retained. Example: You got a 6% credit on a car. You sell in 2 years. You keep 4%, must recapture 2%.

Component depreciation: 1/1/81

Old Rule. Allowed on all real estate. Owner may break up property into useful life of various components: roof, elevators, etc.

New Rule. No component depreciation allowed if ACRS used.

➤Furniture, rugs, drapes and appliances acquired in a real-estate deal may be depreciated separately over 3 years, with 150% accelerated declining balance method. Rule is that items having useful life of under 8 years (under old rules) may now be depreciated over 3 years under ACRS. The component method of depreciaton will live on in (a) the carried-forward basis of 1031 exchange property and (b) foreign real estate, both of which will still use the "old" rules after 1981.

Depreciation—salvage value: 1/1/81

Old Rule. When establishing an estimated useful life, taxpayer was expected to provide for a salvage value on property at end of life. Most didn't. Picky IRS agents could then dispute depreciation schedule in order to force a compromise of other disputed areas on tax return.

New Rule. Under ACRS, no salvage value is required or permitted. Purpose: To reduce friction with IRS.

➤After property has been fully written off, it is carried on books at zero. No more deductions or write-offs possible unless you *lease it to someone else*. Tax credits may then be reassigned to you. Get a *double dip* until they close this loophole.

➤Under ACRS, all *personal* property is presumed purchased or sold on July 1, regardless of the actual date of purchase or sale. Figure 1 incorporates the "six-month convention" for 3–5–10 year class property. **Example:** You purchase a car for $10,000 at any time during 1981 or 1982. First-year ACRS deduction is 0.25 × $10,000 or $2500. Second year, as indicated, is $3800, and third year is $3700. Year-end purchases of personal property are encouraged by the six-month convention because you get six months of write-off even if the property is put into service on Dec. 31. Real estate is presumed purchased on Jan. 1 in this table, but real estate ACRS deductions are taken on a monthly basis. **Example (real estate):** You purchase a $100,000 building on Jan. 31, 1982. Your ACRS deduction is 0.12 × $100,000 or $12,000. If you had purchased on Dec. 31, 1981, you would have received a $1000 deduction for the

Figure 1 Accelerated Cost Recovery System Table of Deduction (use this table to figure your potential deductions)

	3-Year Class	*5-Year Class*	*10-Year Class*	*15-Year Class*
Year	*Cars, equipment with useful life of under 8 years*	*All other personal property*	*Mobile homes, etc.*	*All real estate*
1	.25	.15	.08	.12
2	.38	.22	.14	.10
3	.37	.21	.12	.09
4		.21	.10	.08
5		.21	.10	.07
6			.10	.06
7			.09	.06
8			.09	.06
9			.09	.06
10			.09	.05
11				.05
12				.05
13				.05
14				.05
15				.05

month of December, not the six-month deduction you would have had with personal property. The preceding table calculates *maximum* deductions using accelerated depreciation. At a certain point, a switchover from declining balance to straight line is required. The table incorporates the switch point.

Holding period for capital gains: 1981

Old Rule. One year.

New Rule. Unchanged. The Senate rejected a proposed 6-month holding period passed by the House.

➤If you get a good offer before the one-year holding period is up, sell the buyer an *option* (deductible from purchase price) that can be exercised only after you have owned the property 366 days. Option income isn't taxable till you close the deal.

Public utility stockholder's exemption

Old Rule. Cash dividends of any type were taxable whether reinvested or not.

New Rule. Public utility stockholder who agrees to reinvest dividend in same company for more stock may exclude $750 of dividend income ($1500 married). Income treated as capital gain if stock sold after 1 year.

➤Because they are government-regulated, utilities are not what I would regard as a good long-term investment, so don't buy them "just" because of this new law. For those who already own utility company stock, sign up for dividend reinvestment. It's relatively small peanuts, but a "no-lose" loophole.

Oil royalties: 1981

Old Rule. $1000 credit allowed against windfall profits tax.

New Rule. Small producers benefited by increased credit: $2500 for 1981. Two barrels/day exempt 1982 to 1984; 3 barrels/day exempt in 1985 and thereafter.

➤Dealing in mineral leases, oil and gas production is just as good a business as real estate—with less hassle, usually. It makes a good side business, particularly if you live in a state with these resources.

Foreign assets: 1981

Old Rule. No distinction between property situated inside or outside the USA.

New Rule. Personal property, such as equipment owned by an

American but leased out abroad, may now be depreciated over half its old useful life; 200% declining balance may be used. For real property, a 35-year life applies to all foreign real estate; 150% declining balance optional. Component method apparently may be used. Treasury to issue rules about eligibility for tax credits.

➤ With rapidly changing tax laws often amounting to confiscation and an uncertain political future, the establishment and ownership of foreign-based business entities and foreign investments is essential for any individual who aspires to survival. Diversification abroad is more important than mere tax considerations. It may save your life.

Tax straddles: 1981

Old Rule. Simultaneous buying and selling same commodity to be able to generate tax losses was often challenged by IRS. Some cases of tax fraud were brought. Rules and cases murky.

New Rule. Commodity deals must be marked to market at end of each year. Sixty per cent of capital gains and losses will be treated as long-term and 40% as short-term. There will be a 3-year carryback on losses. Gains rolled forward from prior years are subject to transition rules: Tax may be paid in five annual installments, with interest. Complicated formula expected to take the tax shelter out of stradddles.

➤ The technique of buying and selling short volatile securities or commodities can still be used to generate losses by closing out loss positions at year end, and not closing out profits until a subsequent year.

Real Estate

Gain on sale of personal residence: 7/20/81

Old Rule. No tax on profits if more costly residence purchased within 18 months; 24 months for newly constructed house.

New Rule. Twenty-four months to repurchase. No difference if new or used home.

➤If you sell a free-and-clear home or one with a small mortgage and buy a slightly more expensive one subject to a large mortgage you can raise substantial tax-free cash.

Exclusion of gain on sale of residence: 1982

Old Rule. If age over 55, first $100,000 is tax free. No need to purchase new home. No depreciation on personal residence.

New Rule. Exclusion raised to $125,000. No accelerated cost recovery on personal residences except for office or business at home.

➤Wait until fifty-fifth birthday before selling principal residence if you don't plan on buying a more expensive home. Lifetime $125,000 exclusion applies to both members of a couple, but two single people get $125,000 each. Obvious solution: Get a divorce before selling your home to preserve that second deduction.

Low-rent housing—construction loans, taxes, carrying costs: 1981

Old Rule. To be capitalized over life of real estate.

New Rule. Can be expensed.

➤Indications are that the administration will do more to encourage low-rent housing with tax subsidies than direct cash subsidies. Check with HUD for latest government giveaways, loan programs, and tax-shelter features of special housing or rental programs.

Low-rent housing—depreciation of improvements: 1981

Old Rule. Qualified low-rent housing could be depreciated over 5-year life.

New Rule. Low-rent housing gets new short life under ACRS and can also use 200% declining-balance method instead of 175% required for other real estate.

➤ Low-rent housing has been an excellent tax shelter, but a relatively poor investment, in the past. Check the economics of the deal. Normally the way to "make money" is to build it as general contractor. Get a loan or a grant to cover costs of construction and yield a builder's profit. Nursing homes for the elderly will be a major play for the 1980s, since need for these facilities is exploding and supply is dry. Explore federal programs in this area.

Rehabilitation of real estate tax credits: 1/1/82

Old Rule. Ten percent rehab tax credit on expenses to remodel non-residential properties at least 20 years old. This credit will apply if work on project started anytime in 1981.

New Rule. Buildings between 20 and 30 years eliminated. Credit raised to 15% if age between 30 and 39 years, 20% if over 39 years, 25% if certified historic. Cost recovery deductions under ACRS must be reduced by amount of tax credit taken, except in the case of historic rehabs.

➤ If you buy an old dump for $10,000 and then get a government-backed, low-interest, long-term loan to rehabilitate it for $200,000, this could give you a $50,000 tax credit, $24,000 in first year cost recovery, and possibly no cash outlay on your part. Of course it would have to be a "historic" building that Pocahontas, George Washington or some other celebrity slept in (Elvis?).

Investment tax credits on real-estate rehabilitations: 1982

Old Rule. Eighteen percent for rehab costs on commercial (not apt.) buildings 20 years or older and historic structures.

New Rule. Fifteen percent if 30 years old or more (non-residential)' 20 percent if 40 years old or more (non-residential); 25 percent if historic (can be residential, commercial or industrial).

➤The restoration of historic buildings can be fun, as well as a great tax shelter. The definition of *historic* tends to be very loose, and your local planning commission is a good place to start checking for properties or districts considered historic.

Six-month convention: 1981

Old Rule. Aggressive tax avoiders used half-year convention to get six months' depreciation on property acquired at end of December. Mad dash for tax shelter at year end was an annual event. Shelter ads proliferated in December, last-minute deals were closed on New Year's Eve.

New Rule. On real estate, no more 6-month convention. Real property must be prorated by the month. You get full month regardless of date within month property purchased.

➤On personal property, six-month convention now mandatory. Regardless of when you bought (or sold) within the year, ACRS is calculated as if property bought on July 1st. Obviously best time to buy personal property is still December 31st. You get six months of depreciaton even if you only held property for one day. Holding title not a requirement, only beneficial interest. The depreciation benefit and tax credits may be *sold* to any corporation.

Real Estate—"at risk" rules

Old Rule. Doesn't matter if investor is personally liable on loans or not. Taxpayer need not be at risk in real estate deals to take depreciation based on entire purchase price.

New Rule. Same. Note: In almost every other tax shelter, no deductions are permitted on that portion of investment financed by a non-recourse loan.

Real estate dealer property: 1981

Old Rule. Property held by taxpayer primarily for sale to customers

in the ordinary course of business does not qualify for depreciation, long-term capital gains on sale, exchanging.

New Rule. Unchanged.

One of the biggest worries of a real-estate investor is that the IRS will try to pin "dealer status" on him. Because IRS looks for "secret intent" they can make a case against anyone to deny ACRS—the most important benefit of real estate ownership. Contrary to popular belief, there is no IRS rule of thumb that makes you a dealer (like over 3 transactions in a year). Best way to achieve and maintain non-dealer status is to generate plenty of paperwork to the effect that you are holding a particular property as a *long-term investor.* Don't sell very often or advertise to sell your properties. List them "for exchange only." Don't put "real estate" as your occupation on the tax return. Comment: Congress should have created a "safe harbor" in this area. Now it's a fertile field for IRS blackmail. The IRS can get you to agree to an unfair compromise by threatening to raise the "dealer question." In securities, if a non-stockbroker holds a stock for over a year, he is not a dealer for tax purposes. The same should be true in real estate, but it isn't.

Capital gains: 1/1/82

Old Rule. Capital gains low rates applied to profits on "non-dealer" property. If accelerated depreciation was used, the excess depreciation over straight line is treated as ordinary income (as per IRC section 1250 "Recapture"). Effective top rate on capital gains 28%.

New Rule. Capital gains rates apply if 15-year ACRS life is used. If 175% declining balance is used, *all* recaptured depreciaton on non-residential property. Commercial property gets IRC section 1250 treatment. Effective top rate 20% on capital gains effective 6/6/81.

Capital gains taxes can be sheltered by depreciation or by tax credits. Any investor in depreciable property should be able to sell a portion of the investment property annually and have the profits

fully sheltered by depreciation on the remaining holdings or new acquisitions. For those thinking of "cashing in your chips," the present 20% rate is probably as low as we will see for many years and 1982 might be a good time to liquidate and pay the taxes. Even back in the Eisenhower years, the capital gains rate was 25% (maximum).

Real-estate depreciation: 1981

Old Rule. Complex guidelines. Example: 50 years write-off on concrete warehouses, 40 years new apartments, 35 years some industrial. Preferences (faster depreciaton) given to "first users."

Component depreciation allowed taxpayer to "break" property into parts, each having a shorter life than the whole structure.

New Rule. Fifteen-year "Acclerated Cost Recovery System" (ACRS) on all structures. No component depreciation. Optional: 175% declining balance. Optional to take a straight-line 35- or 45-year life. New or used structure—no difference.

Fifteen-year life will generate two to three times the shelter of prior years. If more write-offs are needed, 175% of straight line may be used at taxpayer's option. Although this may generate "preference income," the option should be explored by running figures on a computer. Recapture of accelerated depreciation can be avoided by doing a 1031 exchange (see Chapter 9). Computations will be complex, but that's why we have IBM, isn't it?

1031 Exchanges: 1981

Old Rule. Profits from investments in any tangible could be rolled over indefinitely as long as sales proceeds went into other "like kind" investments as a "trade-up."

New Rule. Basic rule unchanged! Trade-up real property must be depreciated under "old rules." Only portion of *trade-up* property resulting from new cash or financing over amount of prior loan may be depreciated over 15-year ACRS rules. No simple explanation. See Chapter 9.

➤Ordinary income tax, capital gains taxes, alternative minimum tax, and recapture of accelerated or straight-line depreciation are all avoided by arranging for a 1031 Exchange—the reinvestment of sales proceeds in similar ("like kind") property. For instance: if *any type* of real estate is sold, reinvestment can be in any type of real estate. If any precious metal is sold, reinvestment can be in any other metal. Deferred reinvestments are made possible by setting up a so-called Starker trust to hold proceeds of sale until new investment can be made. "1031" exchanges can't be used on dealer property (stock in trade.)

Business

Expensing: 1/1/82

Old Rule. All personal property was to be depreciated over estimated useful life. Expensing limited to small expendable tools.

New Rule. Taxpayer may elect to expense up to $5000 per year in 1982 and 1983; up to $7500 per year in 1984 and 1985; up to $10,000 per year thereafter. *Note:* No tax credits on property expensed in one year.

➤Large companies have long had the practice of expensing items purchased with costs below a certain arbitrary point, usually $300 to $800. An aggressive taxpayer would continue to write off such items in addition to the expense allowance provided.

Corporate tax rates: 1982

Old Rule.

Present rates

Taxable income	*Rate (%)*
Under 25,000	17
25–50,000	20
50–75,000	30
75–100,000	40
Over 100,000	46

New Rule.

New rates

Taxable Income	*Rate (%)*
Under 25,000	16
25–50,000	19
1983 and Later	
Under $25,000	15
25–50,000	18

The reductions are not significant. Tax savings involved are under $10,000 for any one corporation.

➤When you see an ad touting corporations as the ultimate tax loophole, what they have in mind is that corporate taxes are lower than "people" taxes. If you have several side businesses, each earning under $25,000, your tax rate on each business corporation is a maximum of 16%. Also, under ERTA, most small corporations having any need for cars, computers, copy machines or other machinery equipment can garner enough tax credits and ACRS write offs (depreciation) to avoid taxes entirely.

Business net operating losses: 1976

Old Rule. Could be carried back 3 years and forward 7 years.

New Rule. Back 3 years, forward 15 years.

➤Artificial losses created by ACRS deductions (formerly called depreciation) can be carried back three years, resulting in a refund of taxes paid previously plus interest.

Accumulated earnings penaly tax
Tax years starting after 12/31/81

Old Rule. If a corporation accumulates over $150,000 in the till without showing justification (money needed for future expansion, etc.) there are penalty taxes.

New Rule. Amount raised to $250,000.

➤If you would like to find a way to build up cash reserves without too much in taxes, consider forming a corporation. Acccumulated earnings can be left in the till. Years later, when the corporation is sold or collapsed, if done right, you get the money or assets at capital-gains rates, or maybe tax-free. Consider also the DISC for exporting businesses, and multiple corporations if your enterprises can be divided up. This gives you the benefit of a low tax rate of 16% to 18% for corporate earnings under $50,000.

Stock options: 1981

Old Rule. Years ago, employees at Sears and other companies got rich on stock options. Many companies gave key employees tax-free stock options to permit them to profit from future corporate growth. Old law greatly limited usefulness by taxing value of options as ordinary income on date received. Stock options dropped from favor as a mode of executive compensation.

New Rule. ERTA reinstates the pre-old-law position that there would be no tax on options when granted and capital gains treatment when exercised. Limit is $100,000 per year worth of stock. If options not exercised, employee can get a 3-year accrual of up to $50,000 per year.

➤Valuable stock options can be granted to an employee without tax consequences. This provision is one of the few ways an employee can amass a significant net worth. Should build employee loyalty and increase performance.

Gifts & awards: 1/1/81

Old Rule. $100 maximum tax-free per employee tax deductible for employer.

New Rule. Increased to $400.

➤Cash awards for length of service and safety suggestions can be and should be given to your worthy helpers.

Job tax credit
Up to 12/31/82

Old Rule. Employer who hires new employees from "targeted" disadvantaged groups gets up to 50% tax credit on salaries paid.

New Rule. Extended with more targeted groups you'd never think of as disadvantaged, like "recent college graduates."

➤You could open a restaurant, hire a bunch of ex-cons, hardcore unemployed, recent college grads and other *qualified disadvantaged* and get the Federal Government to give you tax credits for half their wages.

Research & experimentation
6/30/81 to 1/1/86

Old Rule. Deduct immediately or amortize expenses over short life, but no tax credits.

New Rule. Same expensing or amortization plus 25% tax credit, to the extent that R & D expenses increased over prior 3-year base period.

➤To encourage a renaissance of Yankee ingenuity, it appears that properly structured research and development expenses may not only be deducted in the year incurred, but will *also* give rise to a 25% tax credit.

Net operating loss carryforwards and carrybacks: 1/1/81

Old Rule. Losses in operating any business or investment enterprise could be carried back 3 years and forward 7 years.

New Rule. Three-year carryback still applies; carryforward is extended to 15 years.

➤Depreciation can be used to create operating losses without any "cash" losses. These loss carrybacks can be used to get a refund of any taxes paid in the past three years and to avoid paying taxes on future profits for the next 15 years. Extending the carryforward per-

iod will help distressed industries who have suffered large losses. It will help many individuals and businesses gain tax refunds if they use IRS form 1045.

Subchapter S corporations: 1981

Old Rule. A corporation can be totally tax-free and merely file an annual information return if it has less than 15 shareholders.

New Rule. Number of shareholders now increased to 25. Trusts can be shareholders.

The main advantage of a Subchapter S corporation is that income that would otherwise be subject to Social Security deductions can now be channeled out of a business in the form of director's fees and dividends not subject to Social Security. As with any business, all expenses, medical/dental insurance, travel on business, company cars, box seats at the ballpark, and so on, can be used to sop up any earnings in the Subchapter S corporation. The perks or fringe benefits are free to the stockholder/officer/employees, and deductible to the corporation. To avoid a State corporate tax, incorporation in a domestic tax haven imposing no such taxes is recommended. Nevada is a "best bet."

Inventory accounting LIFO & FIFO
For tax years beginning after 12/31/81

Old Rule. Taxpayers with business inventories were always allowed to use LIFO *in theory*. LIFO means "Last in, First Out." In times of inflation, high-cost current inventory should be sold off before low-cost old inventory. Result is less taxable profits. IRS normally gave taxpayers problems when they used LIFO. Result? Most small businesses gave up trying to use it. FIFO ("First in, First out") has been the IRS preferred method of accounting for income since it yields more tax when prices are rising.

New Rule. ERTA obliges the IRS to issue a set of simplified regulations and indexes that will allow small businesses with gross receipts of under $2 million to switch over to LIFO. It remains to be

seen whether the IRS will sabotage this one with unworkable regulations. But for businesses with large low-cost inventories, there should be the possibility of lowering taxable income in coming years.

➤LIFO provides a way of building up one's net worth by investing in resaleable goods and expensing the purchases as a cost of doing business. Your net worth increases by holding appreciating portion of your inventory while selling off currently purchased merchandise. This works best with inventories not rendered obsolete by fashion or technical changes. LIFO would be a boon to anyone in the "collectible" business—antiques, arts, etc. Dealer profits are ordinary income. But if you never sell the best stuff, there is no tax.

Tax Rates

Alternative minimum tax: 1981

Old Rule. Individuals who used accelerated depreciation or other special tax shelters generated "tax preference income." If over $20,000 was sheltered it was subject to an "alternative minimum" 10% tax on the amount between $20,000 & $40,000, 20% between $40,000 & $60,000, 25% on amounts over $60,000.

New Rule. Income sheltered by ACRS (new depreciation) not considered preference income. Maximum alternative tax now 20%. Income sheltered by accelerated depreciation considered preference income subject to alternative minimum tax.

➤Avoiding the Alternative Minimum Tax without really understanding it is easy. One can make a million or more cash flow a year and still pay Zero tax. Just avoid over $20,000 in so-called tax preferences like *accelerated* depreciation, amortization or cost recoveries, intangible drilling costs in excess of oil/gas income, capital gains, and some adjusted itemized deductions. My rule of thumb is simply to use straight-line depreciation (now called "cost recovery") to keep taxable income at Zero or a negative figure. Leave trying to understand or compute the Alternative Minimum Tax for

those with computers. It is beyond the intellectual scope of mere mortals. But if you need the extra shelter, Alternative Minimum Tax calculations should be performed annually near year end to keep tax at close to Zero without generating more minimum tax than needed. Too many accelerated write-offs will cause an Alternative Minimum Tax impact.

Tax rate reductions: 1981

Old Rule. Persons earning over $108,300 single or $215,400 jointly were in the 70% tax bracket.

New Rule. Top bracket is now 50% and it starts at $60,000 single, $85,600 married.

Note: After adjustments for inflation and increased Social Security, the ERTA "reductions" can be better described as a welcome lessening in the rate of increase. It's better than "bracket creep," but it won't increase a wage slave's standard of living much. You don't have to *do* anything to take advantage of tax rate reductions, they will just happen. But standard year-end procedures should be followed: Prepay taxes and bills on December 31. Defer year-end income to January 1.

Indexing: 1981

Old Rule. Tax brackets were fixed until 1981. Because they were not adjusted for annual changes in the cost of living (i.e. inflation), taxpayers paid ever greater proportions of their "real" income in taxes.

New Rule. After 1985, tax brackets and exemptions are to be adjusted for inflation measured by the Consumer Price Index.

Bracket creep has been reducing the real income of wage slaves for the last decade. Real income after taxes went up, but taxes went up even more. This reform is long overdue for working people. Thanks, Ronnie!

Marriage penalty: 1981

Old Rule. When two single taxpayers of relatively equal income married, their tax was higher than when they were single. The solution was to divorce every December and remarry every January.

New Rule. A complex formula is supposed to eliminate this situation. Sometimes it does, sometimes it doesn't. If both spouses earn money, alternate methods of filing (head of household, or married filing singly) should be run on computer to ascertain maximum advantage.

➤ Generally, marriage is a neutral factor these days from a tax point of view. Being married can be a tax advantage where spouses have great disparity in income: i.e. one spouse is in top bracket and the other earns little or nothing.

Child or dependent care credits: 1/1/81

Old Rule. Tax credit is 20% of expenses incurred to care for dependents while you work, to maximum of $2000 per dependent on up to two dependents (i.e. maximum dollar credit of [20% of $4000] or $800).

New Rule. Amounts increased for persons earning $10,000 or less to 30% of $2400 for one dependent or 30% of $4800 for two or more dependents. Higher-income people earning over $30,000 get 20% credit using complex sliding scale. Maximum credit now $1440.

➤ As usual, Congress takes a simple concept and starts tinkering—complexifying it. A one-sentence law becomes five sentences, soon there are pages of formulae, tables, regulations and qualifications. Before long it will take a year's study to understand it. But for now to get maximum benefit from this loophole: (a) Don't earn over $30,000 per year of taxable income. You'd try to do that anyway. (b) Don't have more than two children. I guess that will help meet government desires for zero population growth. (c) Don't spend more than $2400 per kid per year on child care. (d) *The expense*

money can be paid to a relative, like Granny, who stays at home to watch your kids while you are working, or looking for work. Keep records to document all of the above or else your maximum $1400 tax credit may be disallowed.

Gift tax exclusion: 1/1/82

Old Rule. If more than $3000 given as a gift to one person, a gift tax was due. Married couples could give $6000 per year to any person of their choice without tax consequences.

New Rule. Annual exclusion is now raised from $3000 to $10,000. Also excluded are any amounts given to pay medical expenses or school tuition.

➤If income-producing property is given to a minor or dependent, the later-produced income to the recipient will escape tax if recipient has annual income under the minimum subjected to tax (approximately $3500 per year). This is useful for transferring property to infants. A couple can give say $100,000 in stock to a child using a $20,000 gift the first year and an interest-free loan for $80,000 to cover the balance. The loan can be paid off by annual forgivenesses of $20,000 per year. A gift tax is always paid by the *donor*, not the recipient. If a wealthy parent resides abroad or moves to a tax haven and is no longer subject to USA income taxes, a USA beneficiary can receive tax-free gifts without limit.

Charitable contributions

Old Rule. No deduction unless you itemized all deductions.

New Rule. 1982–83 Give $100, deduct $25 from gross income.
1984 Give $300, deduct $75 from gross income.
1985 Deduct 50% of all contributions.
1986 Deduct 100% of all contributions.

➤Big deal! The entire cash difference in taxes for 1982 can't amount to more than $12.50. But after 1986 it can be substantial.

"About 250,000 of the wealthiest and most productive citizens give up their U.S. passports each year. The tax code encourages an American brain drain."

Income earned abroad: 1/1/82

Old Rule. In 1981, an American earning any amount abroad is taxed the same as if living in the USA, with the exception that the *excess* costs of foreign housing, schooling, and other costs of living may be deducted.

New Rule. For 1982, the first $75,000 of earned income may be excluded from tax. Additonally, housing expenses or housing allowances may be excluded. The exclusion increases $5000 per year up to a $95,000 maximum in 1986.

➤Think about moving abroad to a low or no tax area. The *Tax Revolt* book shows how to find and use tax havens. The USA is the only major country in the world that ever attempted to tax the income of its expatriates residing abroad. The result was economic disaster, as American companies dropped from first place to "off the charts" in international commerce. It will be decades until the damage is repaired. You can do your part by living and working

abroad, stirring up trade for USA-based businesses. "Unearned income" is not subject to the exclusion, but may be converted by switching from passive investments (i.e. interest-bearing) to active investments like rent-producing real estate or equipment leasing.

If already living abroad, it is essential to defer 1981 income into 1982 where possible.

Interest on overpayments and underpayments of taxes: 1981/82

Old Rule. The IRS set a different interest rate each year at approximately 70% of prime rate. It paid people to defer taxes as long as possible, thereby borrowing from the Treasury at bargain rates.

New Rule. The IRS will pay or charge you whatever the prime rate was in September of the prior year.

For 1982 the interest rate will be 20%. For 1981 the rate was 12%. In 1981 it paid you to delay payment as long as possible and use the money at a bargain interest rate. For 1982, if the interest rate drops, you might make a better return than from money funds. How? By paying more than you owe in January and applying for a refund plus 20% interest in December.

Negligence and fraud penalties: 1982

Old Rule. Five percent of amount owed as a penalty. Fifty percent of amount owed for fraud.

New Rule. Five percent of amount owed as a penalty, plus an additional 50% of amount owed. Same fraud penalty.

Usual excuse to escape negligence penalty is "my accountant did it." This often works, but IRS will reportedly be more aggressively pursuing accountants for negligence in the future. Prediction: Fewer accountants will handle income-tax preparation. Fees will be higher for those remaining in the business.

Retirement plans

Individual Retirement Accounts (IRA): 1/1/82

Old Rule. Contribution up to $1500 per could be deducted from income ($1750 married) limited to 15% of earned income. Pension fund could be invested in almost anything.

New Rule. Contribution up to $2000 per year ($2250 married) no % limit; withdraw at age 59½. Can no longer invest in "unproductive assets" like gold, art, stamps, coins.

The beauty of these retirement plans is that *you* can select the investments, buying and selling for the plan without paying any capital gains or ordinary income tax on trading profits. For real-estate investors, your "dealer property" can be purchased for your retirement plan, and be sold without any holding period.

Simplified employee plans (Keough): 1/1/82

Old Rule. Maximum annual contribution was up to $7500, limited to up to 15% of earnings.

New Rule. Maximum annual contribution now $15,000. Limit of 15% remains.

Estate Taxes

Study Figure 2 for present and future estate tax rates.

How to Use This Tax Table

As of 1982, anyone with a total estate valued at $225,000 or less (double it if married) doesn't have to worry about estate planning for federal estate tax purposes. But remember, most *states* (with the exception of a very few like Nevada and Florida) have have heavy state *inheritance* taxes unaffected by these new federal rates. To understand the federal tax table (Figure 2) in terms of a "real person," let's say you have assets of $1,200,000 and are

Figure 2 Unified Federal Estate and Gift Tax Rates

For Taxable Estates Above:	*1981*	*1982*	*1983*	*1984*	*1985*	*1986*	*1987*
$ 175,625	32%	—	—	—	—	—	—
225,000	32	32%	—	—	—	—	—
275,000	34	34	34%	—	—	—	—
325,000	34	34	34	34%	—	—	—
400,000	34	34	34	34	34%	—	—
500,000	37	37	37	37	37	37%	—
600,000	37	37	37	37	37	37	37%
750,000	39	39	39	39	39	39	39
1,000,000	41	41	41	41	41	41	41
1,250,000	43	43	43	43	43	43	43
1,500,000	45	45	45	45	45	45	45
2,000,000	49	49	49	49	49	49	49
2,500,000	53	53	53	53	50	50	50
3,000,000	57	57	57	55	50	50	50
3,500,000	61	61	60	55	50	50	50
4,000,000	65	65	60	55	50	50	50
4,500,000	69	65	60	55	50	50	50
5,000,000	70	65	60	55	50	50	50

married with 2 children. If you die after 1986, your wife gets half of your estate tax free as her "marital deduction." The other half of the estate can go to either your wife or your children tax-free because it is under the exempt amount of $600,000. Problem is, if you left everything only to your wife in your will, when she died, leaving $1.2 million to the kid(s), only the first $600,000 would be tax-free. The difference between $600,000 and $750,000 would be taxed at 37% or *$55,000*. The difference between $750,000 and $1,000,000 would be taxed at 39% or *$97,500*. The difference between $1,000,000 and $1,200,000 would be taxed at 41% or *$82,000*. Proper estate planning—doing something like leaving *half* the estate to the kids in *trust* for the wife until she dies—could have achieved a $235,000 savings in estate taxes. Because of the rather large $600,000 exemption, it is expected that about 98% of

all American estates will no longer be subject to federal estate taxes. But if you expect to leave an estate of more than that, either get a book on estate planning, or use a good lawyer who specializes in that subject. Now!

Gifts to a person who later inherits from an estate are added back into the estate to come up with the figure equalling "gross estate."

For the very wealthy, leaving the taxable portion of an estate to a private foundation provides a method for succeeding generattions to have control of the funds, although funds must be devoted to "worthy" purposes.

Marital deduction: 1982

Old Rule. When a surviving spouse inherits, the greater of $250,000 or ½ the gross estate could be first deducted in determining the gross estate subject to tax.

New Rule. The limitation has been removed and a surviving spouse can take an estate of up to $1,200,000 tax-free as of 1985.

➤ To take advantage of the marital deduction, and avoid a tax on the estate of the surviving spouse, it is generally necessary for an attorney specializing in probate/tax law to draw wills setting up testamentary trusts with all the proper clauses. Because of differing state laws, a lawyer experienced in the State of Domicile should be used. Older people with substantial estates should consider settling in Florida or Nevada where there are no state inheritance taxes. Older people with very large estates amounting to over $1,200,000 should consider moving to countries that have neither estate nor inheritance taxes (like Bermuda, Cayman Islands, most provinces of Canada, and the Bahamas).

Estate tax—family farms, closely held businesses: 1981

Old Rule. To overcome objections to the forced liquidation of family farms and businesses to pay estate taxes, Congress permitted these assets to be valued on the basis of "current use" rather than

fair market value, but the reduction in valuation could not exceed $500,000.

New Rule. The "current valuation" can reduce the taxable estate by $600,000 in 1981, $700,000 in 1982, $750,000 in 1983 and thereafter.

➤The owner of substantial wealth who desires to preserve it for future generations should purchase at least one million-dollar farm in the path of urban growth. Because the farm land will be worth much less for growing crops (i.e. "current use") than for a shopping-center site, this asset in an estate will be valued at $750,000 or more below market. Reasoning? Valuations for estate tax purposes are traditionally below market value anyway, and thus a $2,000,000 business or farm would probably be valued at only $1,000,000 under the new ERTA rules.

CHAPTER 3

Lower Tax Rates

THE BASIC income-tax rates that you will get from the government in the form of "tables" accompanying your tax returns and instruction book will show a very slight drop in 1981, amounting to about 1.5%. Hardly enough to think about! But for high-income individuals there is a big and noteworthy change: The distinction between *earned income* (that under both the old and new laws is taxed at 50% maximum) and *unearned income* (prior to 1981 taxed at up to 70%) is now abolished. The highest rate of tax on unearned income (namely dividends and interest) is going to be 50%.

The obvious purpose of getting rid of the unearned income concept is to encourage investment in the stock market and in the financial markets. It is designed to discourage the frantic search for tax shelters by individuals who found that, after taxes and inflation, there was no way to earn a positive return on any interest-bearing investment. Our existing tax structure played a great part in sending interest rates from roughly under 10% per year to 20% and

up—creating a shortage of loan funds even at those lofty levels. Accordingly, if there is any common sense in Washington, the distinction between *earned* and *unearned* income should stay buried for a long time. But to guard yourself against a re-imposition, *long-term bonds* and other *long-term, interest-bearing instruments* (like mortgages) should be avoided. When I say *long-term* I am thinking of debt instruments that will mature after the current Reagan Administration ends. So don't get stuck with maturities beyond that time.

Up until a few years ago I was always amazed that anyone could ever get into the 70% income-tax bracket. Besides the obvious problem of figuring out how to earn a six-figure income, no matter how much income one earns—with a personal side business or real estate holdings—taxes should always be kept at close to Zero. But, in the course of giving seminars and making contacts with wealthy people, I learned that many high-income professionals simply *do not have the time* to look for tax shelters or run a side business. They are too busy working and paying taxes to look for ways to build up a second income from tax-sheltered investments (like real estate). As a result, after years of earning monumental salaries, wages or commissions, many executives and professionals have nothing to show for their hard work but debts and tax receipts.

I preach the gospel that *you really don't have to pay much in taxes*—or any taxes at all—if you will simply spend a little time looking for, and looking after, investments that are also tax shelters. My first book *Think Like a Tycoon* (see Resources and Reading List, p. 110, for how to get it) has for its bottom line the proposition that anyone who finds himself or herself nearing the 50% bracket has a common-sense duty to self and family to seek out real estate or business deals that will not only make money but will also result in paying less taxes.

The message Congress sends us through the tax laws is very loud, and very clear: If you want to accumulate a respectable net worth by investing surplus earnings from high earning years, you *must* have more going for you than any job or profession can provide, no matter how high your pay. For those not inclined to handle a do-it-yourself investment, there are a few reliable individuals who will take your check, invest your money, and give you paperwork indicating that for "tax purposes" you lost all kinds of

money—perhaps double or triple what you invested. However, in a *good* tax shelter, while you are losing money on paper, you should be increasing your net worth in the "real world." This book will show the many ways to accomplish this.

Remember that, in general, no one will look after your money better than you do. The returns available from even the best-managed *passive* tax shelter—where all you do is hand over a check and passively receive paperwork and an occasional distribution check—are far, far less than you would get if you made a study of opportunities available and actively pursued a business on your own. The opportunities for writing off almost every expense of a comfortable lifestyle (trips, conventions, fine cars, various goods and services) come with your own *active* investments in real estate or business. But in any good shelter, even a passive one, you should get depreciation allowances, conversion of ordinary income into capital gains, tax credits, and enough "paper deductions" to get your taxes down to nothing—or whatever you regard as your fair share of support to the government.

The first step is to set yourself a goal. Let's say you decide your goal is to earn at least $100,000 annually; to pay $10,000 or less in taxes; and to invest at least $50,000 a year to get a real-world return of at least 20% on your money after taxes. If you have some material goals, this book can become a good guide for you. But you must have your own plan—some idea of where you are going and what you want to accomplish before this book or any advice can help you. In my view, tax loopholes or gimmicks that involve tax savings of under $10,000 per year do not warrant serious consideration. I talk about some of what I call small-peanuts items to show you that I have studied the 1981 Economic Recovery Tax Act and am as familiar with it as anyone. But I try to do a lot more for you—I want to steer you away from wasting time, energy and money on small stuff!

Get your mind focused on "thinking like a tycoon." Four or five years from now you should look back and say "I don't have to work for a living any more. That little book I read back in 1982 set me off in a new direction. I now have an independent tax-sheltered income. I now have complete freedom to spend my days pursuing my own personal interests. I can live wherever I want, and spend

my life doing whatever I want to do." Merely paying less taxes is an unworthy goal—*you must have a grand plan for positive action.* Saving on taxes will be incidental.

In this small book I intend to familiarize you with the new law, explain how it affects you, and give you some hints on how to use it effectively, by pointing out its loopholes. You should know at the outset that what Fuzzy-Thinking Leftists call *loopholes* for the rich are usually nothing more than *tax incentives* to nudge individuals into acting certain ways that Congress deems beneficial to the national interest. Creating new products and scientific advances, for instance, are currently perceived as being very important by the government. That is why individuals who undertake research and development projects may be able to earn huge tax-free incomes for just trying, whether or not the research produces a new product or scientific advance. The point is, a sincere effort to engage in certain activities encouraged by government will give you much satisfaction. It will usually do your country some good, and most importantly, will give you a tax-free ride on the Great Tax-Free American Gravy Train.

This book, and the other books listed in the Resources and Reading List at the back will raise your consciousness to a vast array of opportunities. It is up to you to find your own path to the banquet and dig in. Reading a book won't do a thing for you *unless you take action in the real world.*

If you are a wage slave, your tax burden after inflation really won't change much with the new rates. Just look at them and assume that we'll have 12% inflation. If your wages go up, you'll still pay out a greater percentage of inflation-adjusted dollars than you did before 1982. Your standard of living won't drop *as much* as it would have without the new tax act. Particularly with the growing Social Security tax, it isn't *really* a tax cut. For the working person, it's just a reduction in the rate of increase. "Bracket creep," that used to take a bigger and bigger *percentage* of your paycheck as inflation pushed up prices and wages, is slowed. From now to 1984 the tax rates are scheduled to drop approximately 1% in 1981, 10% in 1982, 20% in 1983 and 23% in 1984. If we have 12% per year inflation, the tax you will be paying in 1984 will be just about the same in "real" or inflation-adjusted dollars (see Figure 3).

Figure 3 Individual Income Taxes under the New Tax Rates

	Tax Liability					*Tax Savings in 1984 Compared to 1980*	
Gross Income	*1980*	*1981*	*1982*	*1983*	*1984*	*Amount*	*%*
$ 35,000	$ 5,065	$ 5,002	$ 4,544	$ 4,111	$ 3,902	$1,163	23.0
50,000	9,323	9,206	8,376	7,569	7,165	2,158	23.1
75,000	18,281	18,052	16,451	14,874	14,085	4,196	23.0
100,000	27,878	27,530	25,741	23,230	22,056	5,822	20.9
150,000	47,128	46,539	44,899	41,452	39,325	7,803	16.6

These calculations assume: married person, 2 dependent children, earning all income as compensation. Itemized deductions are approximately 23% of income.

Capital Gains Tax

What you earn at your job is considered "ordinary income" by the IRS. When you earn about $40,000 per year you are in the 50% bracket. That doesn't mean that you pay a tax of 50% on everything you earn, but only that (in 1982) you will pay 50% on everything you earn over about $41,500 as a single taxpayer, or $85,600 as a married taxpayer. If you are a jeweler and you buy and sell some diamond rings, the profit on those rings will be subject to ordinary income tax. But if you are a lawyer, not in the business of buying and selling jewelry, and you purchase $20,000 worth of rings, hold them for a year or more, and then sell them, the profit you make will be taxed at a maximum rate of 20%. So generally, we all should prefer Capital Gains profits to Ordinary Income. Wealthy people have for years converted Ordinary Income into Capital Gains by simply buying real estate. While there will be more on this subject in Chapter 7 (Depreciation and Tax Credits), this is how to do a conversion:

Mr. (50% Tax Bracket) Irving Investor buys a single-family home (or a *piece* of a larger real-estate deal in the form of a syndication share) for $200,000. $195,000 of this price is "borrowed mon-

ey," usually an assumption of loans already against the property. Only $5000 is actual "at risk" real-cash down payment. Let's say the cost of paying the loan interest and keeping up the property exactly equals the rents—so there is no cash return on the $5000 investment. But for tax purposes (using the new 15-year depreciation schedules) Irving can write off, or "lose on paper," 1/15 (6.67%) of the total value of the structure each year. The loss is thus slightly over $13,000 per year. If Irving's or your income was $40,000 last year, obviously, the purchase of just three of these deals would shelter all of your income and you would pay *no* income tax. Assuming that in 15 years after it was fully depreciated, the property was sold for exactly what you paid for it ($200,000), you would get a check for your $5000, pay off the loan, and even though you didn't get a dime more in cash, the IRS would say you now have a capital gain of $200,000. Years later you would owe a (maximum) tax of $40,000 of your capital gain (20% of $200,000). But having avoided tax on $200,000 of ordinary income, you saved $100,000. Presumably you invested your $100,000 tax savings in other profitable deals over the fifteen years. You would be way ahead. Got that? You saved $100,000, and should have earned at least another $100,000 after taxes during the fifteen years. If you don't have the idea, re-read this paragraph several times and write it out on a sheet of paper until it becomes clear to you. Look at it. Without an understanding of this simple concept, you will never figure out how tax shelters work.

The "new" capital gains tax rules are not difficult to understand, even though they might sometimes be difficult to compute. Leave the computations to the accountants and their computers. All you have to know is that your profit on investments held over one year can now be taxed at a *maximum* of 20%. If you are *not* in the 50% tax bracket, your capital–gains tax will be considerably less. In recent years the capital gains tax rate has wobbled from as high as 50% to as low as 28%. The current 20% rate of tax is as low as most of us can remember in our lifetimes. As a result, I don't figure the capital gains tax will go any lower in the near future. But it could go higher.

What does this mean to you in terms of tax planning? Simply that it may be a good time to look at stocks or real estate you have

"The message of ERTA is 'Make a clean sweep of all your old property and buy new stuff to take advantage of 'accelerated cost recovery systems'."

owned for years—to review all investment holdings. This may be a good year to sell some or all of these holdings and pay the relatively reasonable 20% tax. How do you decide what to sell and what to hold? Let's say you have a stock paying you 6% interest and it doesn't look like the company will be setting the world on fire or paying much more in dividends over the next ten years. And let's say you bought the stock for $50,000 some years ago. Today it's worth $100,000 and yielding you $6000 per year. If you sell, you could put the money in commercial paper yielding 20%. So you sell the stock for $100,000, pay your $10,000 (maximum) capital-gains tax on the profits in April and invest $90,000 at 20% interest. You make $18,000 instead of $6000 next year. If you want to increase your cash income, obviously you have made the right decision. Even after taxes of $10,000 you still net $8000 in income the first year—instead of $6000. In Year 2, you get $18,000 instead of $6000.

Many individuals felt they were tied into investments and could not afford to sell when capital-gains tax rates were higher. Some people still feel that they would rather hold on to what they have than pay a 20% tax. But for me, with 20% or better returns on

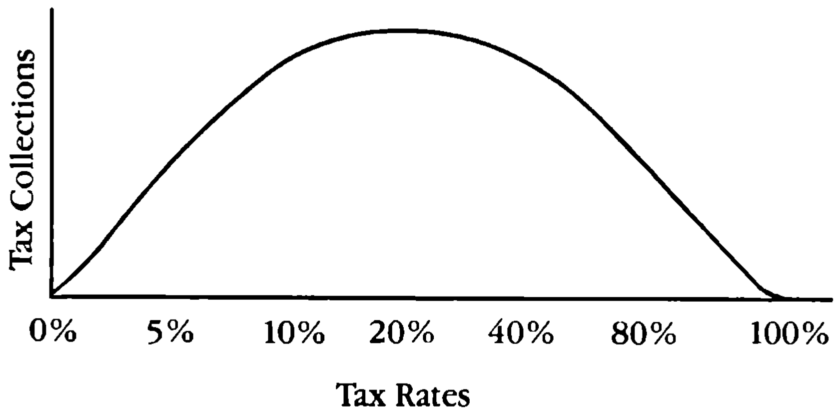


Figure 4 Laffer Curve (Logarithmic Chart)

new investments readily available and gorgeous write-offs on new real-estate deals, I would rather sell some of my old stocks and properties, take my profits, pay my tax, and look for new deals with better potentials. The government wants to encourage this attitude. They think, and I agree, that capital moving around seeking out new investments is far healthier for the economy than stagnation. New investments will (or at least should) mean new construction, new businesses, new jobs.

The reduction in the capital-gains tax may even bring in *more* money to the Treasury. Why? If, for instance, the capital-gains tax were 95% and nobody sold anything, there would be no taxes collected. If there were a 5% tax and everybody sold almost everything, the tax collections would be huge. Can lower taxes mean higher tax collections? Maybe! Ronald Reagan was very influenced by a young economist named Laffer who thought up the "Laffer Curve." An approximation of the curve is illustrated in Figure 4.

What Laffer's chart means is that *the higher the tax rate* (according to Laffer's theory) *the less taxes will be collected.* There is some optimum point at which a relatively low tax rate makes tax collections highest. The Administration is guessing that this optimum point is 20% for capital gains. They think that most sellers will not be inhibited from selling by this 20% tax. We can expect that there may be some more tinkering with the rate (it is sometimes called "fine tuning") until the Government feels it is extracting the most taxes with the least pain.

I like the Laffer Curve Theory. If it means that drastically re-

duced taxes are the wave of the future, I hope that the new economics stays around. The consensus among Laffer and his group is that lowering a tax rate till it gets somewhere between 10% and 20% will produce more revenues (and incidentally, more happy people) than the more recent rates that have gone as high as 70%. The experience of Hong Kong, which for years had a 10% income tax (recently raised to 15%) and no capital gains taxes, was this: Extremely good economic growth; very little tax evasion. Seems to bear out the Laffer Curve Theory, doesn't it?

For you, the 1981 Tax Act means that the government is encouraging you to get off your fanny, look at new opportunities, and get out of some of your old habits and old investment holdings. Think about putting your money into new stocks, business opportunities, real-estate developments, exporting, research-and-development projects—all of which will be taxed at lower rates than ever before. Some Fuzzy Thinking Leftists would say this: You'd be taking advantage of loopholes provided for the rich. I say that for the first time we have an Administration that is attempting to set the economy on a proper and healthy course. Why not take advantage of this attitude—while it lasts?

Corporate Tax Rate Reductions

The 1981 Tax Act reduces corporate tax rates over a two-year period, but the substantial reductions are only in the lower corporate tax brackets. The table in Figure 5 compares the regular corporate tax rates under the Act with the regular corporate tax rates in effect for taxable years beginning before January 1, 1982.

Figure 5 Corporate Tax Rate Table

Taxable Income	*1981*	*1982*	*1983*
\$0 to \$25,000	17%	16%	15%
\$25,000 to \$50,000	20	19	18
\$50,000 to \$75,000	30	30	30
\$75,000 to 100,000	40	40	40
Over \$100,000	46	46	46

Accumulated Earnings Tax

The Act increases the amount of accumulated earnings that a corporation may accumulate without justification from $150,000 to $250,000, effective for taxable years beginning after December 31, 1981. This increase generally does not apply to service corporations. An individual can now form one or more corporations, pay a low tax on income, and accumulate $250,000 in each corporate till.

LIFO Inventory Method Provisions

Don't worry about these provisions unless you own a business inventory of products. If you do, let your CPA work out the details.

The LIFO inventory method treats the last goods manufactured or purchased as the first goods sold. In an inflationary period, the LIFO method offers significant tax benefits because the taxpayer is able to deduct most recently incurred higher costs while previously incurred lower costs remain in inventory. By using LIFO, a taxpayer avoids currently paying taxes on the inflationary profits that are in the inventory. Despite the benefits offered by the LIFO method, many taxpayers, particularly small businesses, have not elected to use it because of its complexity.

When LIFO is elected, the inventory for the first year preceding the year of the LIFO election must be stated at cost. The restatement of the preceding year's inventory to cost typically requires an income-increasing adjustment that is included in income through an amended return for the year preceding the year of the LIFO election.

Investment Income

Beginning in 1982, the maximum marginal rate on investment income will be reduced in one swoop from 70% to 50%. This reduction is expected to encourage capital formation and to reduce tax evasion. The creation of the category of highly taxed Unearned Income was inspired by the example of Socialist England. It discouraged investments and entrepreneurship there and helped

make England a second-rate country. Naturally our Fuzzy-Thinking Leftist politicians had to try it here in the United States. The 1981 Economic Recovery Tax Act brings us back to Square One.

CHAPTER 4

Tax Strategy for 1982

THERE IS no reason to change the investment and activity patterns suggested in my earlier book *Tax Revolt*. Taxes are still too high, the tax code is now even more complex, and although a reduction of taxes and the few new safe harbors provided by ACRS are welcome, *ERTA doesn't simplify anything*. ERTA only makes more attractive the tax avoidance maneuvers recommended in *Tax Revolt*. These include leveraged real-estate investment, having your own side business, and becoming an independent contractor. (See Figure 6 for more explicit information.) All these alternatives are made still better by ERTA. Those who are wage slaves have their pay and deductions calculated by the boss's computer. They will need the services of a technocrat armed with his own computer to figure out their income taxes. The independent yeoman taxpayer will never know (unless the IRS challenges his return) whether it was done "correctly" or not. There actually is no such thing as "correct" because of the many *alternatives* available. Selecting from the myriad of alternative calculations has become a job for a computer. Something is wrong with a tax system that is universally incomprehensible.

Type of Tax Shelter	*Tax Benefits*	*Possible Tax Problems*	*Other Considerations*
Real Estate (direct or syndicated) a. Commercial b. Industrial c. Agricultural d. Residential	• Faster depreciation (15-yr) • Leverage • At risk rules inapplicable • Investment credit for qualifying low-income or commercial rehabilitation • Capital gains potential	• Capitalized interest/ taxes • Accelerated depreciation tax preference, recapture • Suspect deductions	• Competent administrator? • Not liquid • Construction/occupancy risks • Government regulations and rent controls • Inflation benefits (competitive costs, leverage) • Variable interest?
Your Own Side Business a. Any production service b. Research and development c. Export d. Energy conservation e. Distribution or mail order	• Deduct living expenses • Gain tax credits/ depreciation benefits • Deduct travel and entertainment • Can lose money 3 out of 5 years • Build up equity/capital gain potential	• Possible audits • Suspect deductions • Hobby business challenge	• Owner controls and manages • Good cash flow • Grow with outside investors • Time-consuming
Securities a. Venture capital b. Leveraged bonds c. Dividend arrearages d. Straddles	• Ordinary deductions/loss • Capital gains potential • Timing flexibility • Small business stock losses may be ordinary	• Investment interest expense limits • Expense to carry tax-free bonds not deductible • Profit motive • New tax law limits on straddles	• Unpredictable market • Good liquidity • Individual commitment and management or investment manager

Resource Exploitation a. Gas b. Oil c. Coal d. Minerals	• Deduct intangible drilling costs • Depletion: (20% in 1981, scaled to 15% by 1984) • Windfall profits tax phased reduction	• ITC tax preference • Depletion scale-down and preference • Recapture ITC if sold	• Not liquid • Potential calls for money • Rate variability • Fairness of deal
Equipment Leasing	• Accelerated depreciation (3–5 years) • Investment credit potential • Cash flow	• At risk loss limit • ITC limited for non-corporate lessors • Tax preference • Depreciation recapture • "Lease" vs. loan	• Not liquid • Residual risk • Credit worthiness of lessee • Institutional competition
Agriculture a. Feeder cattle b. Breeder cattle c. Crops d. Fishing boats/storage, or processing plants e. Research and development	• Deduct supplies consumed—cash method • Investment credit (not feeder cattle or crops) • Capital gains potential (breeder cattle, processing plants, etc.)	• At risk loss limit • No prepaid feed or supplies deduction for SEC-registered deals or if over 35% of losses go to "limited entrepreneur" • Accrual method required for some taxpayers in some farming activities • At risk investment credit limit	• Leverage available • Severe price/cost volatility • Not liquid (except cattle feeding) • Historic money loser

Paying Zero tax is easier than ever. This year a whole new area of tax-shelter opportunity has opened up. This is equipment leasing. Real-estate investors also will be awash in new depreciation deductions and tax credits. Some incentives are slightly changed, but the tax benefits of going into government-favored activities are better than ever.

The overall goal of the Reagan administration is to get the government out of many areas. Health, education, science, business, culture and welfare all are scheduled for cuts. To encourage private individuals to take over government functions with private funds, there will be more changes.

Loopholes are never spelled out in tax laws. The IRS won't tell you that you can have a good time, save on taxes, and best serve your country and personal interests by starting your own business or investing in real estate. You must look at the laws, decide what activities are now favored by government, and then get into those areas that appear to offer financial benefits and maximum personal satisfaction. Life is still a do-it-yourself project, and this book should help you plan your life a little better. *101 Loopholes* is written as a companion piece to *Tax Revolt*. With the exception of *Tax Revolt's* sections on depreciation, that book is still the most current advice on aggressive *legal* tax avoidance. With the knowledge gleaned from both books under your belt, you should be able to cope with both life and taxes far better than most people.

CHAPTER 5

Start Your Own Business

THIS IS a do-it-yourself tax shelter anyone can afford, and I am going to tell you how to do it. You don't have to be a plumber or a brain surgeon earning $100,000 a year to need a tax shelter these days. In fact, if you pay any income tax at all, you can use this technique to get your taxes down to Zero. You'll find that the hours you can spend in tax-reducing maneuvers (besides being pleasurable) will earn you far more money (in taxes saved) than the same efforts spent making more taxable income. If you have any guilt feelings about not paying taxes, just remember, it's patriotic to start your own personal tax revolt. Jimmy Carter, Richard Nixon, even Ronald Reagan have done it—each reducing their own taxes to Zero when they chose to—by using legal tax-sheltering techniques. And if you do pay out over half your income in taxes, all you'll accomplish is the hastening of a socialist paradise where government employees and welfare recipients constitute the vast majority, and worthwhile productive people like yourself support half a dozen parasites and their families. The Reagan Administration wants you to earn more money and pay less taxes by starting a business of your own! Several

of the men near and dear to the President made their fortunes selling tax shelters: Regan of Merrill Lynch and DeVos of Amway, to name a couple.

Having now disposed of your psychological objections, let's assume that you and your spouse make $22,000 each. If you don't make that much, the example still applies, because in a few years you will (inflation being what it is). Now $44,000 for a family income used to be way up there. It could support a home in the best neighborhood in town, private schools for the kids, a maid, a gardener, and vacations in Europe. But in the 1980s, $44,000 puts you in a tract house and barely puts decent groceries on the table. It also gets you in the 50% tax bracket (federal). There's probably another 10% in state taxes, and maybe another 10–15% in other deductions for Social Insecurity, unemployment, pension plans, and so on. All these deductions mean that you may be working from Monday to Thursday for *other people*. You may spend Friday working for a pension you'll never enjoy because by the time you retire, your benefits won't even buy a hamburger a day.

George Washington, Ben Franklin, and the founders of the United States revolted against a British taxation system that was far less onerous than the average working man faces today. It's time you did the same thing. Fortunately, the tax law, as presently written, makes it possible to pay little or no taxes—legally—if you simply make the effort. My other books and tapes emphasize real estate (income property) as the ideal tax shelter: Often no money is required to make the investment; there is no risk; and infinite amounts of outside taxable income from wages or salaries can be sheltered. I still believe that individually made real estate deals (*not* investment in other people's "syndicates") is far and away the best investment and tax shelter around. *Everyone* should have at least a few income properties. A dumpy little "yuk" house or a few duplexes are where you start, and in later years you should graduate to net-leased, trouble-free industrial or commercial properties. Income property is still the best way out of the trap of a deadend job. It's still the best way to make inflation work for you. It's still the best way to beat the taxman legally. But I have also emphasized that everyone should have *several* things going for him or her. Our government, by simply eliminating the depreciation deduction, could do what it did to

the stock market. (I don't think that they will kill the real estate market, but the point is that they *could*.) There's another negative thing about real estate: While I love the money it has made me (some several million dollars in just a few years), I hate the management and the dealing with bureaucrats and courts that are becoming more and more a part of the real estate game. When these problems get me down, I like to have something else to devote my time to—something else that will generate a cash flow if I put in a bit of effort. So what should *you* do next . . . ?

Why not follow in the footsteps of Bill "Tycoon" Greene and diversify: My new book, *Tax Revolt*, has a chapter in it about selling partnership shares in real estate that you select. You can think of it as mini-syndication in which you put up *none* of the money, but keep half of the profits on a deal—thereby being able to make high profits on your expertise, and at the same time giving a fair shake to the investors in your projects. In the $16 book *Tax Revolt* I show you how to do it without licenses, permits, or batteries of expensive lawyers and accountants to syphon away your profits.

How do you develop clients, investors, and a following for your program? Again, why not follow in the footsteps of the Tycoon. Sell books, tapes, newsletters and a home study course like I do. You could even give seminars at your house. Later, if they caught on, you could give them in larger commercial halls, like I do. *Don't dismiss this scheme as something that won't work for you.* It

very well could be the start of something big: A no-risk, almost no-investment business and tax shelter. Here are the questions and answers that probably come to mind.

Q: *Where do I get the talent to u rite books, make tapes, and put together a home-study course like you did?*
A: You might have the talent to do it all yourself, but if you don't, you can buy it from good old Bill Greene at wholesale prices. The no-risk no-investment part comes in this way: Instead of having to invest several years and tens of thousands of dollars in developing a "product" to sell, you invest (tax deductible) in a very small sample inventory at $350, which you should be able to sell at $700 with little or no effort within a week. By repeating the process several times you generate some cash, create a terrific new tax shelter (that I'll explain later) and develop prospects who understand the Bill Greene Investment Philosophy and how you will help them achieve financial success in it.

Q: *But your books are all about "doing it yourself," and warning against investing in other people's red ribbon deals. Doesn't that scare people away?*
A: It is true that the best deals and the highest profits are "do it yourselfers," but most people with money to invest and a busy professional career will read the books and long for someone else who'd do all the work—even if it meant giving up half of the profits. I am reluctantly handling a few investors on this basis and you should too!

Q: *How does this all begin? What do I do?*
A: It starts by sending us $350. For this, you get a selected kit of our books and tapes, plus a brief instructional manual on how to drum up sales without wasting a lot of time or money. We suggest such imaginative business-builders as small ads in the paper and pre-printed 3 × 5 cards you post at your local supermarket that are titled MAKE MORE MONEY, PAY LESS TAXES, LEGALLY. When your orders exceed the samples in your possession, we can drop ship to you. You can make a profit on each item sold without ever investing in more inventory. "Drop ship" is the equivalent of a no-money-

down deal in real estate. For example, you collect $16 on *Tax Revolt* from a customer, send us $8, and we ship directly to you or to the customer. You keep $8.

Q: *How much money can I make (or lose) in this?*
A: With virtually no paid advertising, and a lot of hustling, I expect that I will have sold about 60,000 copies of *Two Years for Freedom/Think Like a Tycoon*, 80,000 copies of *Tax Revolt*, and 50,000 newsletter subscriptions. If you check our list of Resources at the back of the book for prices, and divide that by half, that is what you would make if you had the same results in 1980/81. In case your math is rusty, we are talking about over a *million bucks*. That's how much *you* can make, for *starters*.

How much can you lose? Not even shipping costs. If you haven't sold all of our merchandise by 1982, *your tax savings will more than pay for the $350 you have put up*.

Q: *How does that work?*
A: The tax benefits are basically the same for any small business run from home. You can write off trips almost anywhere, business phone calls, auto expense, entertainment, travel, and everything that is an ordinary and necessary expense. This will make it possible to write off practically every dime you spend on anything related to your new business as a book distributor and mail-order merchant. Even that portion of your rent or house payments that relate to your office at home "used exclusively for business" can be written off, or under the new ACRS depreciation rules $5000 can be expensed in the year put into service (1982). The IRS lets you take all these write-offs—even if you don't sell a single book. The only question they are allowed to ask is whether you have a sincere desire to make money and have made reasonable efforts in that direction.

Q: *Does your usual 100% guarantee of satisfaction and full refund privilege hold good on the Distributor Package?*
A: Yes and no. Because we don't want people ordering a whole Distributor Package just in order to return most of it for a refund and keep the few books they want at half price, we find it necessary to impose a 25% handling charge for refunds. The Distributor Pack-

age is composed of our bestselling products. You should be able to sell it easily. But sales come only with *effort* and if you don't make the effort you will get neither sales profits nor the tax deduction. With just a little energy, you will be able to do both. Several of our distributors watch the ads for other people's *seminars* and then make a deal to sell books during breaks and give the lecturer 10% of the gross sales. The distributor gets a free pass to many lectures that way, and makes money at all of them too. Not to mention all the interesting new people, the exposure to deals, and the tax deductions that are generated. Our unconditional 100% refund applies to all our mail-order retail products. (See Resources and Reading List at the back of this book.)

Q: *Isn't this just a scam for you to sell more of your books?*
A: The purpose of this book and everything I say or do is to make it easier for people to get out of their ruts by providing a detailed do-it-yourself hopefully foolproof plan. I made (and lost) a fortune on the stock market. I made another fortune tracing missing heirs. I did it again in real estate. And soon I hope to make another million in mail-order books; a million from my seminars; and a million from my real-estate partnerships. I like to make money, and I like to make money for those who come along for the ride. I fervently hope you will benefit from my materials and experience, and that you will broaden your horizons and not allow yourself to be raped and robbed by The System. It is the hope of any good teacher that his students will surpass the old master. It is my fervent wish that you make a million from my ideas and products, and that you expand to handle other people's products, or perhaps develop your own books, tapes and educational materials. The most important thing is that *you* make it. I already have! It is more important to Bill Greene that you get the good things out of life—I want that more than I want you as a captive customer. But there is nothing inconsistent with me (or you) making a profit in cooperation with the other. As I say at my lectures "I'd like to give 'em away free, but if you give a hungry person a fish—all you get is a dependent. If you show a hungry person how to fish and lend them your fishing pole, you have a partner."

Q: *Where do I sign?*
A: Send $350 for your Distributor Package. When it arrives, you will get full instructions, which, when combined with your own ingenuity and efforts, should open new doors for you.

Remember! If you *intend* to make money in a business, all ordinary and necessary related expenses are legitimate tax deductions (see *Tax Revolt* book for full details).

CHAPTER 6

Independent Contractors

INDEPENDENT CONTRACTORS are a thorn in the side of the IRS. The IRS would *love* to get rid of all independent contractors because their independent, unregulated status provides a degree of freedom and mobility that is hard for bureaucracy to deal with. While not, strictly speaking, a part of the Economic Recovery Tax Act, in 1981 Congress again told the IRS to lay off independent contractors. The IRS regularly releases impressive statistics to the effect that if those who pay independent contractors were forced to withhold taxes at the source, compliance would go from a suspected 50% or less, to around 99%. Our "voluntary system of self-assessment taxation" never has worked very well. The IRS suspects that many, if not most, independent contractors don't bother to pay their taxes. Many wage slaves could become independent contractors if they knew the rules. Here comes the straight poop.

Small business people prefer independent contractors because they can be hired for a project then paid off in full. There is no fuss, muss or bother with pension plans, Social Security or withholding. An independent contractor requires less supervision and paper-

work. From the point of view of a worker, there are many reasons to be an independent contractor, and not all of them are tax reasons. But the tax advantages are *very* important because an independent contractor gets paid in full for his labors and does not have a myriad of deductions stolen from him at the source.

First, let's go into the difference between an "employee" and an independent contractor: An employee is a wage-slave who reports in to a job, is told when, where and what to do, gets an hourly or weekly wage (and sometimes a bonus or commission). Perhaps half of his (or her) wage is deducted for Federal, State and Local income taxes, insurance, pensions and Social Security. The employee (on his own tax return) gets few deductions: can't take his car expense, office at home, and so on.

An independent contractor can write off almost every business-related thing he does. Most important, earnings are not subject to withholding. He is hired or retained to do a particular job or take on a particular responsibility. Then, with limited or no supervision, the independent contractor gets the job done without being under the "direct control" of the employer. While no single factor is conclusive, to be recognized as an independent contractor for IRS purposes, the employer must appear to be interested only in results, and not in methods. An employment contract is very helpful in defining the relationship. (See Figure 7 for a sample contract.) The independent contractor should have the right to hire or substitute other people to do his job without consulting the employer. If other subcontractors or helpers are in fact hired, the independent contractor (not the employer) should control them. The employer may furnish materials and tools—but it is better if the independent contractor furnishes his own as part of the service. Continuing long-term employment indicates an employee relationship. An independent contractor often has several employers at the same time. An independent contractor would be more likely to work at home or at a place of *his* choosing, but the use of a desk and phone on the employer's premises does not conclusively establish "employee" status. An employee is usually paid by the hour or week—an independent contractor usually *by the job*, on commission, or pay is related to performance. An independent contractor usually makes a substantial investment in his own training and provides his own facilities such as the tools,

equipment or premises needed to carry out the work. An independent contractor is often in a risk position, that is, he may make a profit or suffer a loss on a particular job. An independent contractor will commonly offer services to the general public. Someone performing secretarial services, for instance, would be considered an independent contractor if he posted notices offering to do this work for the public, and called his operation "Acme Secretarial Services." A business card and business stationery are expected of an independent contractor.

Forming a separate entity helps establish the *bona fides* of an independent contractor. The independent contractor bills for his services. He would be an "employee" if he went into work every day at the same office, was handed work to do, and received a regular paycheck for the same amount every month. An employee can be fired any time (subject to union restrictions in some jobs). An independent contractor may not be dismissed during the term of the contract as long as the work measures up to contract specification. *A person can still be an independent contractor even if several of the above factors are not present—but the more a person "looks" independent, the less likely the IRS is to challenge the relationship.*

I would rather be an independent contractor and have independent contractors working with me because I believe in freedom and equality. Wage slaves are often little more than flunkies to their employers and victims to the government, which like a vampire bat takes half (and sometimes more) of their pay, leaving just enough for the worker to survive and be a victim again. The independent contractor can say "I don't have to look busy, dress or act in a certain way, I just have to get the job done at my own speed. I can arrange my life to have Zero income for tax purposes. As an employer, I personally can't begin to cope with the computations required to figure out and withhold deductions, the Occupational Safety and Health Regulations and all the other Mickey Mouse rules and regulations."

The IRS would like to eliminate all independent contractors, and that is reason enough to become one. But aside from tax considerations, there are many other advantages to being an independent contractor. If work can be done at home, there is more time to enjoy the family and to let them participate in your life. They can often be of great help. My six-year-old daughter works on opening envel-

opes and affixing stamps. I can pay her up to $3300 tax free and still get an extra tax deduction for it. Likewise my "old lady" types, mails and takes phone calls. So if I go to a business meeting in Hong Kong, her expenses as well as mine are tax deductible. Why? Because she is a legitimate business helper. There is the opportunity to take on or even create pleasurable assignments, and to refuse work that is not "fun." Any office equipment, cars or tools of the trade I purchase or lease may be written off under the new ACRS rules, thereby sheltering most of my income.

For those interested in working out an independent contractor relationship with their employer (which will be much cheaper for the employer and infinitely more financially rewarding to the former employee) or for employers who would like to convert their employees into independent contractors, I would suggest retaining an attorney to prepare an agreement to fit your situation. The following example is provided as a sample only and should not be used without a second opinion.

Signed at Place New York City
Date Dec. 25, 1982

Whereas, Bob Businessman ,
hereafter known as Entrepreneur or "E" and William Workingman
doing business as Workingman Independent Services Company
hereafter known as Independent Contractor or IC, hereby establish this contractual relationship and absolutely excluding any employer/employee relationship, the parties agree as follows:

1. IC's project objective will be to accomplish the jobs fully set forth on Sheet "A" attached and incorporated herein by reference.

2. P agrees to compensate IC as more fully set forth on Sheet "B" attached and incorporated herein by reference. [Pay or compensation should be dealt with on a separate sheet]

3. This contract shall commence today and terminate in 12 months .

4. IC takes full responsibility for bringing about the desired results, is free to bring in any partners, substitutes or subcontractors who will do all or part of IC's work without any supervision or control by E, and no permission from E shall be required for this.

5. IC is free to choose where to perform work, and may do so at IC's own home, office, or any other place of IC's choosing.

6. IC shall set IC's own working hours, pace, operating procedures, etc. without consulting E or being directed by E in any way.

7. IC is free to work for others during the period of this contract and expressly notifies E that IC will continue to offer services to the general public during the period of this contract, and will at all times maintain a separate and distinct identity and place of business, separate and apart from that of E.

8. If E supplies IC with any tools, equipment or office space, IC agrees to pay for same at fair market value.

9. E shall not supervise nor interfere with IC in the accomplishment of IC's stated objectives.

10. E shall not terminate this contract prematurely, so long as IC is satisfactorily accomplishing the objectives set forth on sheet A.

11. IC agrees to be fully responsible for complying with all federal, state and local laws including but not limited to the withholding or prepayment of any taxes, the obtaining of any licenses or permits, liability and personal injury insurance, social security, FICA, workman's compensation, retirement plans, etc., both for IC personally and for all persons associated with IC in the performance of this contract. IC agrees to hold E harmless and agrees to do or pay anything that E is required to pay or do in the event that at some future time the contracting parties are coerced to surrender their Constitutional Right as granted under Article 1 Section 10 (No State shall pass any ... law impairing the obligation of contracts.).

In witness whereof, the Contracting Parties have signed this document.

W.I.S. Company By Wm Workingman Bob Businessman

gure 7. Contract establishing entrepreneur/independent contractor

CHAPTER 7

Depreciation and Tax Credits

IF YOU are short on time, you don't have to read any other chapter in this book. This is where the meat is, folks! Most of the other stuff in the 1981 Tax Act amounts to small peanuts. There are a few treats thrown out to special-interest groups like the savings and loan industry. This won't mean much to most of us. But if you are a real-estate investor or small-business owner (as most of my readers are, or soon should be), *the new rules make it possible to pay Zero taxes next year, recover all taxes you've paid over the last three years, and probably pay no more taxes for at least the next fifteen years.* No matter how wealthy you are or how much you earn, the new depreciation tax credit rules are so good that you shouldn't have to pay any taxes any more. With some planning, you can be *awash* in paper losses that you can carry backwards three years and forward fifteen years on your income-tax returns.

All excited? Here it is! First off, you have to understand that there have been *no fundamental changes* in the law or in the *basic concept of depreciation.* Depreciation—which is not allowed at all in many foreign tax systems—works like this:

The law permits investors who buy investment or income real estate or personal property used in a trade or business to take, as a *loss* on their tax returns, a portion of the cost of that property, each year. These depreciation allowances do not result from current cash expenses. The amounts borrowed to finance the purchase of the property are not considered in computing depreciation. As a result, depreciation reduces the tax liabilities of the investor, thus increasing the actual cash returns on investments. Depreciation allowed under current laws drastically exceeds the actual diminution in value due to deterioration and obsolescense—which were the original justifications for the depreciation allowance. In today's inflationary market it is not uncommon for the value of real property, machinery and equipment, automobiles and airplanes, and other property subject to depreciation to *increase* substantially in dollar terms. Thus the price of property often goes *up* in the rising market of the real world. But the investor can treat his holdings, for tax purposes, as if they were crumbling away and losing money. The 1981 Accelerated Cost Recovery System is nothing more than "Faster Depreciation than was Allowed Before!" It simply encourages investors to buy more property, tools, and machinery, to rehabilitate older properties, and to get involved in new business investments. Investors who buy real estate or start a spare-time business will get what I call a "tax pass." The deal is so good that anyone who believes that America has a future should make the plunge and take advantage of the government's offer. The depreciation allowances we can take are truly amazing.

Under the old rules, an individual who invested in real estate was required to estimate the "useful remaining life" of property, and to set up a depreciation schedule over that estimated useful life. The old deal wasn't bad: The new deal is pure Santa Claus! To show you how good the new law is, let's take an example. Pre-1981: Irving Investor buys a $200,000 Hawaii condominium as rental property. He borrows all the money and as a result has no investment in the deal. With his good management, since it is on the beach at Waikiki and commands good rents, Irving is able to pay all his expenses and mortgage payments. He takes out cash or $5000 per year in net rental income. Under the old rules for an almost-new residential building, Irving might have taken a 30- or 35-year life on the property,

and run a substantial risk that he would have to haggle, argue, and perhaps even go to tax court with the IRS as to whether the building really should have been depreciated over 30 years or 40 years. If Irving wanted to avoid hassles, he probably would have chosen the 40-year life (suggested by the IRS). That 40-year life would have given Irving a write-off or loss for depreciation purposes of ($200,000 ÷ 40) $5000 per year. Not bad, because Irving could take out his $5000 per year (depreciation sheltered) cash flow tax-free (There were fringe benefits too—like trips to Hawaii written off as a business expense in connection with managing the property, but that sort of thing is discussed in the next chapter.)

Under the new 1981 rules, Irving *must* depreciate new property he buys today over a 15-year life. In addition, Irving has the *option* of multiplying that 6.67% per year (1/15th) by 1.75, and taking an even faster depreciation if he wants it.* For those without a calculator handy, Irving can now write off up to 11.67% of the cost of his condo purchase annually. The IRS cannot and will not challenge the use of either 6.67% or 11.67% as the annual depreciation factor. Irving still takes home his $5000 cash per year tax-free, but his depreciation under the new Accelerated Cost Recovery System is $23,340 per year. Irving has "lost" for tax purposes $18,340. This figure is known in the real-estate biz as "overflow depreciation." If Irving is a dentist in Chicago, with an income of say $36,000 per year, all he needs to completely shelter his professional income is a condo like this in Hawaii and another one in Florida. In prior years, Irving would have had to buy two or three times as much property (and have two or three times as many headaches) in order to create enough tax shelter to avoid income taxes entirely on his professional income.

Under the Reagan Administration rules, this new ACRS depreciation (15-year life with the option to take 175% of it for even faster depreciation) applies to all types of real estate whether commercial, residential or industrial. There are even better deals in the form of additional tax credits for low-income property, historical restorations, or the rehabilitation of older buildings. The same theory of

*If he takes the faster depreciation, all depreciation must be recovered on sale as Ordinary Income instead of Capital Gain.

faster depreciation also flows to owners of businesses and corporations who can now depreciate much equipment in the year of purchase or over very short lives.

Fully depreciating an item in the year of purchase is called *expensing*. For 1982–83 we can expense up to $5000 in personal property used in business. This grows to $7500 in 1984–85, and $10,000 annually thereafter. Expensing is allowed only for items put into services after 1/1/82. Here is how you could use it: If you owned some real estate or a small business and you used a car 50% for business and 50% for pleasure, you could buy a $10,000 car in December 1982 and get an immediate write-off of $5000, representing your 50% business use. This $5000 write-off in 1982 can be applied to any personal property regardless of the actual useful life. If small tools or appliances with a short useful life are purchased, these too may be written off in one year, as they were under the old rules. In practice, if a firm selected an arbitrary cost figure like $800 as the cutoff point for whether an item should be depreciated or expensed, the IRS usually allowed expensing. But the problem was that, before, the IRS *could* hassle over every item. The new rules eliminate that. The recordkeeping burden is immense when a businessman has to keep track of and depreciate hundreds or even thousands of small items monthly. Expensing appears to be the wave of the future. In addition to lightening up bookkeeping chores, eliminating taxpayer arguments with the IRS, and giving taxpayers bigger write-offs and less taxes, it should encourage people to get out and buy new tools, equipment and other items to be utilized in creating new products, services, jobs and technical advances.

For items that can't be expensed in the year of acquisition, the new shorter lives for depreciation purposes and tax credits allowed are simple:

ACRS: Three-Year Life/ 6% Tax Credit

Autos, trucks, machinery, and equipment used in research or development (much of this will be eligible for 25% tax credits too), and other short-life tangible property.

ACRS: Five-Year Life/ 10% Tax Credit

Everything else except real estate and stuff in the ten-year class (next).

ACRS: Ten-Year Life/ 10% Tax Credit

Manufactured homes, amusement-park property, railroad tank cars, certain public-utility and coal-mine equipment and machinery.

Fifteen-Year Life/No Tax Credits

Real estate (structures).

There are a number of "anti-churning" rules designed to prevent anticipated abuses of the law by clever investors who might sell their property and immediately buy it back, merely to generate the higher levels of depreciation. ACRS was intended to encourage investment in additional tangible business property. "Creative" deals that don't carry out this intention will be subject to the old depreciation rules. (See Figure 8 for more information about ARCS.)

Tax Credits

A tax credit is better than a depreciation write-off because, while depreciation reduces gross taxable income on a dollar-for-dollar basis, a tax credit reduces "bottom-line" taxes on a dollar-for-dollar basis. Thus a dollar of depreciation is worth 50¢ to a 50% bracket taxpayer, but a dollar of tax credit is worth a dollar regardless of bracket. There is no tax credit allowed for property expensed in one year, but for three-year-life property purchased after 1/1/82 there is a 6% tax credit. There is a 10% tax credit for all other (non-real estate) tangible property purchased.

How would *you* get to use tax credits? Let's assume that you are a wage slave, but you've decided to go into the business (see Chapter 5) of distributing books, soap, TV sets or other products in your spare time. You'd buy a new computer for $10,000 with $500 down and payments of $500 per month. Hopefully you'd earn enough in your new business to make the payments and cover your expenses. If you had a break-even business operation in your first year, here is how the tax credits would work: A three-year life on the equipment would give you depreciation of $3333 per year; 6% of 10,000 = $600. Whatever your tax was, you would reduce it by $600.

Class	*3-Year*	*5-Year*	*10-Year*	*15-Year*	*15-Year Real Property*
Type of property	• Cars • Light trucks • R&D equipment • ADR midpoint of 4 years or less	• Most machinery and equipment (not in 3- or 10-year class) • Single purpose agricultural structures • Petroleum storage facilities • Public utility property with ADR midpoint of 18 years or less	• Railroad tank cars • Public utility property ADR midpoint of 18.5 to 25 years • Recreational facilities and theme park structures • Qualified coal conversion property of public utilities • Depreciable real property with ADR midpoint of 12.5 years or less • Manufactured homes	• Public utility property with ADR midpoint of over 25 years	• Real property (other than items redesignated personal property in 5-year class or real property in 10-year class)
Investment Credit	6%	10%	10% (except real property)	10%	0
Expensing in Year Placed in Service?[1]	Yes	Yes	Yes	Yes	No
Optional Recovery Periods	6%	12 or 25 years	25 or 35 years	35 or 45 years	35 or 45 years
Half-year Convention[2]	Yes	Yes	Yes	Yes	No (prorated by months)

Optional Declining Balance Writeoff[3]	1981-1984 150% DB/SL 1985 175% DB/SYD 1986 200% DB/SYD	Same as 3-year	Same as 3-year	Same as 3-year	• Low income housing 200% DB/SL • All other real property 175% DB/SL
Depreciation in Year of Disposition	None allowed	None allowed	None allowed	None allowed	Prorate by months
Recapture[4]	In full No capital gain	In full No capital gain	In full No capital gain	In full No capital gain	• No recapture Property using SL • Excess of accelerated over SL. Residual using accelerated • Full recapture Commercial using accelerated
Tax Credit Recapture	2 percentage points for each year below 3	2 percentage points for each year below 5	2 percentage points for each year below 5	2 percentage points for each year below 5	N.A.

[1]Annual Limits: 1982 and 1983, $5,000; 1984 and 1985, $7,500; after 1985, $10,000.

[2]The half-year convention has been built into the recovery tables. The full amount provided in the tables for the first year is deductible regardless of the month placed in service.

[3]Straight-line is optional for all classes but must be used if extended recovery is elected.

[4]Recapture of expensed items is immediate and overrides installment sale provisions.

Source: Courtesy of Coopers & Lybrand, certified public accountants.

Merely going into any business would save you (in the 50% bracket) half of the $3333, plus $600. And you would have a nice computer to play with, plus all the fringe benefits and other deductions that go with having a business of your own. Although owning your own business was always a tax advantage, under the 1981 Economic Recovery Tax Act it is better than ever, and something that everyone should seriously consider—whether wage slave, executive, wealthy investor or otherwise.

In Chapter 5 I told you about a business opportunity I set up originally for subscribers to my $2-per-year *Tycoon Newsletter.* I don't want you to feel that I am urging you to buy something. If you want to go into that business, please write me. But the reason it is included is to provide an *example* of how anyone can create a business almost instantly, and the tax advantages that accrue from that decision. There are many companies like Amway that will set you up instantly in a distribution business that can be fun, make money, and of course be an excellent tax shelter. I have, or operate, several of these businesses, and one of the better ones is my Amway distributorship. If you feel in the mood to have your own business after reading the next chapter, send me a stamped, self-addressed envelope and $2 to cover costs and handling. Ask for the short *Distributor's Handbook.* You can use it to operate *any* business, to handle our products, or as a guide to buying and selling *any* product for a profit. You can't get in on the depreciation/tax credit bonanza as a mere employee. The new tax laws are designed to get you off your fanny. This will cause (hopefully) an economic recovery. It will certainly help *you* to an economic recovery. Read on.

CHAPTER 8

Year-End Tax Planning

IT MAKES sense in almost any year to pay all tax-deductible expenses you can possibly pay in the last few weeks of the year, and to defer all taxable income into the following January. The reason is simple. For someone in the 50% bracket, if income can be lowered by say $40,000, the tax saving is $20,000 as of the following April 15th. Even if a tax must be paid on this money the following year, having the use of $20,000 for one year is probably worth between $4000 and $10,000, that being what you could earn on the money if you had it to use in your business for an extra year. Deferring income and accelerating expenses becomes extra important if the tax bracket is going to be lowered in the coming year. Since the bracket on Unearned Income goes from 70% to 50% in 1982, it is obviously even more significant to do all you can to defer income and accelerate expenses. How to do it? Insurance payments, state taxes, real-estate taxes, medical and legal bills, employee bonuses, current-year interest—virtually any deductible item you would be

"The gimmick of year end tax planning is to defer all December income until January and pay January expenses in December."

paying in the first three or four months of the next year—can be paid by check before December 31st. If you are worried about inconveniencing some recipient of income who doesn't want to pay taxes on the payment represented by your check, don't worry. If your check is mailed in the last few days of the year it is still deductible to you (even if cashed in January). A beautiful part of this equation is that the income is not taxable to the recipient as long as they *receive* it in January. Which brings us to deferring items of income.

Obviously you can tell people who owe you money that there is no hurry about paying it and you will give them till January 1st. One ploy used by a famous surgeon is to take a vacation every December 1st and not return or open mail until January 2nd. According to him, he cannot "constructively receive" any income in December if he is in Acapulco, and any checks that arrive in December are not opened or deposited until January.

It should be noted too that credit-card charged items are deductible in the year charged, though billing may be deferred for many months.

For those who own a business, the possibilities for last-minute, year-end maneuvering is much greater. Because more money can be kept in the corporate tax register than before, it might be a good

idea to *not* take as much compensation as you have in prior years, but to let the funds pile up in corporate money-fund accounts. Or, better yet, use funds to pay for things that are an expense to the corporation but not income to you. An example would be *fringe benefits*, such as a year of medical, legal and dental insurance to you as an employee. Or, contributions to a pension plan. Or, allowances for past or future expenses in connection with the business. Although dividends and payments to an owner for attending director's meetings are taxable as income, they do escape Social Security taxes, and may be warranted.

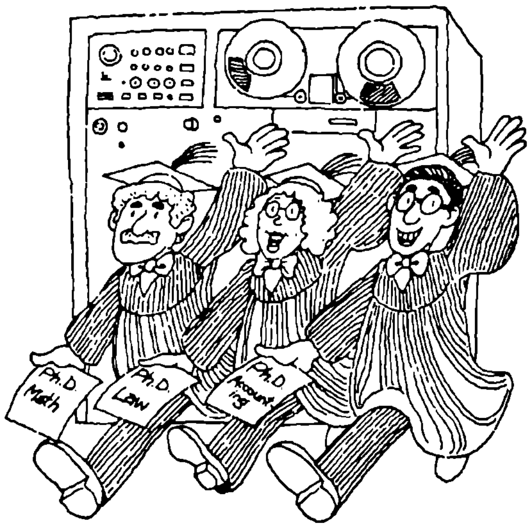
In real estate, December is a very good year to prepay for house painting, repairs, maintenance and cleaning. Even if the work is not done for many months into the new year, the expense is deductible on the day you write and send out (or deliver) the check.

People always ask "What if I pay out $15,000 for deductible expenses on my property or business, and it turns out that I get a refund in January?" The answer is that if you planned it that way you might get hit on a tax fraud charge. But if it just happened to work out that way, and you don't have a history of pulling that same stunt every year, the year-end deduction is perfectly good—but the refund is, of course, properly treated as income in the following year.

CHAPTER 9

Trading Up: 1031 Exchanges After 1981

IN *TAX REVOLT* I said that anyone who knew about the 1031 Exchange Rule would never have to pay a capital gains tax. In that book I went into a great deal of detail on how to do a 1031 Exchange. I won't repeat those forty pages because they're beyond the scope of this slim volume. Nonetheless, I must say here that Internal Revenue Code Section 1031, when translated into plain English, provides that an individual who has invested in anything tangible (cars, real estate, gold coins, you name it) can sell at a profit without tax consequences. Instead of paying a capital gains tax on profits, you can re-invest any proceeds of any sale into "like kind" property. Appropriate paperwork to satisfy the IRS avoids all capital gains tax. Many sellers have worked out court-approved ways to sell their property at a profit, put the money into a simple bank account trust, earn money-market interest tax-free for many years, and then finally invest in "trade-up" property. Prior to the 1981 Act, there was no question that, if an individual had a substantial profit in a property,



"In a 1031 exchange, accounting for 'Hybrid composite depreciation' will require 3 graduate degrees and a computer."

the 1031 Exchange was always the perfect answer. Depreciation recapture would be avoided. All taxes on profits would be avoided. New *trade-up* property could be depreciated on the basis of its cost less the "used up" depreciation in the *trade-in* property. (If you don't understand a word of what I am saying, please get a copy of *Tax Revolt* and read the baby-talk simple explanation provided there. To understand the impact of the new law, you'll just have to have a basic understanding of what was going on *until* 1981.)

Under the new rules, you can still trade up tax free, but the trade-up property will be subject to *two* kinds of depreciation. The making of a 1031 Exchange was always simple, but the technical accounting for "carryforward basis" was always beyond the scope of my humble abilities, being a mere associate of Mensa and holder of a Doctor of Laws Degree. Under the new ERTA accounting rules, keeping track of a deal will require at least three postgraduate degrees in higher math. There will be no way to do it without a first-class CPA firm hooking into an expensive computer that has been properly programmed. In principle, the accounting technique for 1031 Exchanges isn't hard to understand, but in the application, well . . . let's take a look.

Assume that you own an old property we call El Dumpo. You bought it in 1950 for $11,000, of which $10,000 was allocated to the building and $1000 to the land. In the normal course of things you depreciated the property fully, and it is now carried on your books free and clear at its written-down book value of $1000. It is worth, on the market, $101,000. You now find a nice million-dollar Safeway store building that you can get for $101,000 cash down and a $900,000 loan. As of last year you would have bought the Safeway by trading in your equity on El Dumpo. El Dumpo would then be sold out of the trade to a third party. Under the old rules you would have depreciated the new Safeway property over its estimated useful life (20 years?), getting your "basis" by first deducting the profit on the old building and the depreciation you already used up on the old building. So your basis on the Safeway would be $900,000 (forgetting about any land value). You would have made a deal generating you about $45,000 in depreciation write-offs per year (using a 20-year life, $900,000 ÷ 20 = $45,000).

Under the new rules, in a 1031 Exchange for property depreciated under the old rules you can't take the groovy 15-year ACRS (Accelerated Cost Recovery System). In a 1031 Exchange, ACRS is prohibited except to the extent that you put new cash into the deal. And if you put new cash into the deal, you must depreciate the new property using a ratio of "old cash to new cash" to arrive at a hybrid composite depreciation rate. Does this sound complicated? The theory is bad enough. But try to put it into a real-life deal and you will see what happens.

Let's look at the above deal. As it was given, there is no complexity because there was no cash. But without getting creative, you are stuck with a Safeway that has to be depreciated over a 35-year life—a much longer period than you might have used under the old rules. Obviously any real-estate investor will look for ways to be able to use the new 15-year life. How to do it? The obvious way is to arrange for refinancing El Dumpo prior to sale! Why? Because cash raised through refinancing is considered new cash. With refinancing we create a whole new picture: *El Dumpo is refinanced* prior to you as owner going out to look for a trade-up property. (Why prior? Because the IRS will not allow you to use refinancing proceeds as your cash down payment in a trade if the refinancing was done as

part of a pending or contemplated deal. Thus you have to go through the fiction of looking around for new financing without a thought in your head about looking for a trade-up.) So, doing an instant replay of the last example, now you start out with

El Dumpo, value	$101,000
New loans	90,000

You have avoided paying a tax on the $90,000 profit because refinancing proceeds are not income. Now you locate a buyer with $10,000 cash down who will buy El Dumpo out from the trade for the Safeway. Thus you can bring $90,000 of new money into the deal.

The equity in your trade-in building was $10,000. The cash you came up with was $90,000. Result? You can depreciate the new structure 90% over a 15-year life, and 10% over a 35-year life.

Here's how the figures would look:

Fair market value of new property/Safeway, excluding land	$1,000,000
Less tax–deferred gain on sale of old property/El Dumpo	90,000
"Basis" of Safeway for purpose of depreciation	$ 910,000

Ninety percent would be depreciated over a 15-year life and, since the rules provide for accelerated depreciation at 175% of the straight-line rate, we perform this calculation (90% × 910,000 ÷ 15 yrs. × 175%) to get the simple answer: $95,550 in allowable depreciation per year. To this must be added (10% × 910,000 ÷ 35 yrs. × 125% declining balance) or the "old rule" depreciation figure of $3250. The total depreciation allowed the first year will be $98,800. But the calculations of declining balance will get more hairy with each passing year. And in the real world, what if you do another 1031 Exchange, or what if your basis carried forward was already complicated by prior 1031 Exchanges? No taxpayer in his right mind would take a chance on being able to calculate these figures on a tax return "sworn to be correct under penalty of perjury." I'd be afraid to sign any tax return involving 1031 Exchanges and swear that it was correct. I would guess that a majority of accountants will botch up the calculations. Years ago I hired one of the "Big Five" national accounting firms to do the accounting on a 1031 Ex-

change, when things were relatively simple. When the calculations were challenged by the IRS, three more Certified Public Accountants I hired to defend me came up with three different sets of figures. And as I said, that's when things were "simple."

One solution is to throw your hands up and say, I'll just forget about 1031 Exchanges. I'll pay my 20% capital gains tax, and forget about the accounting problems. In our example, the capital gains tax on the sale of El Dumpo would be about $18,000. I would never pay out $18,000 in taxes if I didn't have to. But by selling, and buying a new, far more expensive property, you can generate a lot more new depreciation than you would have done in the old days. As a result, you probably won't ever have to pay any capital gains tax on any property sold in or after 1982 so long as you acquire more expensive property in the same year. Let's see how the numbers look on a straight sale of El Dumpo and a straight purchase of Safeway.

El Dumpo is sold at a $90,000 profit. An $18,000 (maximum) capital gains tax would be due the following April 15th. Safeway is acquired in the same year for $1,000,000. We already figured that the trade-up property generated $98,800 in new depreciation. Obviously the $98,800 in new depreciation wipes out the $90,000 capital gains profit. Under the new rules, most real-estate investors—at least those who acquire high-priced new properties—will be awash in depreciation and tax credits. The bottom line for the real-estate investor is to buy property with a big price tag. Make sure that the

terms and interest rates make it a reasonable deal with a breakeven or positive cash flow. The mere acquisition of substantial values of property in 1982 will generate more than double the write-offs of prior years. From a tax sheltering point of view, real estate is more than twice as good as it ever has been. For those without any investment real estate, 1982 is the year to start buying. Any high-bracket individual should close at least enough deals this year to generate enough losses to shelter all income. For those with property, 1982 is probably the year to sell—get rid of the old low-depreciation property and purchase new properties on a leveraged basis. By acquiring all the new property you can possibly afford and managing it efficiently, any profits on sales can be sheltered by the newly generated depreciation. The use of 1031 Exchanges under ERTA can be expected to drop off for a year or two until investors start trading up the properties they acquired after 1981.

Presumably properties acquired in 1981 or thereafter will have been depreciated under the new ACRS rules, and will be tradeable for other properties to be written off under the same rules without the cumbersome calculations needed for two-tiered depreciation on the same property.

If you found the material in this chapter difficult to grasp, don't worry. It took me three months of night-school classes with the famous Exchange attorney Marvin Starr to understand what Exchanges were all about. Just remember the key rule: *You don't pay a capital gains tax if you reinvest proceeds of sale on a tangible item into similar property.* Reinvestment can be simultaneous or deferred. The IRS has a silly song and dance that must be done in order to escape taxes and it is best to hire an experienced lawyer to handle the paperwork on your first Exchange.

CHAPTER 10

The All Saver Certificate and Similar Nonsense

THE All Saver certificate is the biggest ripoff to be foisted on the American public since the Christmas Club and the U.S. Savings Bond. And, like them, it will probably bring in suckers by the millions. As you recall, the Christmas Club gave you a below-market rate of interest and a snazzy passbook in return for your promise to deposit money in a financial institution regularly. It was a savings-account marketing gimmick to get you to deposit money in certain savings institutions at less interest than you could get elsewhere. No one with any economic sense could call the Christmas Club a good investment. But millions of unsophisticated types put their money into a Christmas Club account which guaranteed nothing but a negative return after taxes and inflation. Then there was the U.S. Savings Bond. How well us old folks over 35 remember those ads that promised "$4 Back for Every $3 You Put In—In Ten Short Years." Trouble was, at the end of ten *long* years you got back less than $1 in purchasing power for your $3, after taxes and inflation. If a

private company had advertised and sold U.S. Savings Bonds as the U.S. Treasury did, they would have been sued for fraud—probably by the Federal Trade Commission. Well *history repeats itself* and here's the exciting true story behind the heavily advertised and promoted All Saver account.

As of 1981, the savings and loan industry was having a hard time keeping deposits away from the higher-interest-paying *money funds*. Because savings and loan associations were the main source of real-estate loans, mortgage money had disappeared from the market. This brought real-estate activity and building to a virtual standstill. It put a large part of the U.S. economy into a deepening slump. With the All Saver as a gift from the administration, the savings and loan associations are expected to be able to attract, or at least keep, some deposits that would otherwise be lost to money funds. The tax-free feature works like this: Saver gives money to an S & L, usually tying up their deposit of at least $500 for one year. The S & L checks the interest rate on Treasury bills and, by the new law, is able to offer the saver a tax-free interest rate of 70% of the T-bill rate at the time of deposit. Why is this a ripoff? Simple. For people who are in business or own real estate and who pay no taxes (due to having adequate shelter) there is no reason to take a return of 30% less than the T-bill rate. There is not any good reason for investors to take the full T-bill rate either, since commercial paper, certificates of deposit, and even fully liquid *Canadian* T-bills or savings accounts usually pay far more than U.S. T-bills. Also, these days any wealthy person knows better than to tie up funds for a whole year. Finally, the after-inflation return from an All Saver is about Zero.

I saw ordinary working folks—mostly older retirees—in line for these All Saver certificates. They are going to be the biggest losers. Just by looking at them I could tell they were probably not in the 30% tax bracket. And if you are not in the 30% bracket, you get a better net return with a money fund, paying taxes. The chart of Figure 9 shows how much you would make *after taxes* if you invested in an All Saver vs. a money-market fund as of October 3, 1981. While interest rates may go up or down, the relative advantage or disadvantage of putting your money into an All Saver stays about the same.

Figure 9 Investing $10,000: A Comparison (married couple filing jointly)

Tax bracket		*All Savers Oct. 3 (12.14%)*	*Money Market Fund**
10%	Pretax interest	$1214	$1657
	After taxes	1214	1491
20%	Pretax interest	$1214	$1657
	After taxes	1214	1326
30%	Pretax interest	$1214	$1657
	After taxes	1214	1160
40%	Pretax interest	$1214	$1657
	After taxes	1214	994
50%	Pretax interest	$1214	$1657
	After taxes	1214	828

*The 16.57% rate is the average yield for funds for the 30 days ending Oct. 2, 1981.

Figure 9 indicates that, for people in brackets higher than 30%, there is an apparent few hundred dollar advantage in the All Saver. But what the ads don't tell you is that the *All Saver tax exemption is a maximum of $1000 per person, for a LIFETIME.* Most of the old folks who live on their savings account interest are dumping their life savings of $20,000 or more into these accounts, not realizing that, for them, once they have earned $2000 the tax-free feature will *disappear* (in about five months) and they will be stuck with fully taxable interest. They'll be stuck with a savings account they can't touch for a year, and stuck with a fixed rate of return one-third below market. Folks who earn enough to be in the 30% bracket should be smart enough to find a better investment! Is *tax-free* a magic word for you? Some tax-free municipal bonds pay up to 15%. Merrill Lynch has a *tax-free money fund* that pays less than the All Saver—but you can write checks against the Merrill Lynch account, and keep liquid. For most people, a regular money fund is still a much better temporary parking place for money than the All Saver. With a money fund you earn more interest. Interest income can be

sheltered with a little ingenuity. Most importantly, in treacherous times like these, with true inflation running over 12%, it is foolish to tie yourself up for a full year with a guaranteed loss in real purchasing power. Low-risk, shelter-producing real-estate deals yielding 12% cash on cash (or more) are advertised in the daily papers. If you work at finding good investments, many tax-sheltered returns are available in today's market. What's the expected life of the All Saver account? I'd give it a year or two. If the gullible public puts money in these accounts it *will* do the real-estate market (and thereby the country) considerable good by getting at least *some* cash back into the starved out area of residential real-estate loans. A better way of handling the shortage of loan funds would have been to simply declare all interest received on new long-term fixed-rate residential property loans made in 1981–82 tax-free for the life of the loans involved. If the government wanted to create tax incentives to channel funds into a vital sector, that action would have drowned the real-estate market in cheap loan money. The liberal depreciation laws of 1981 (ACRS) discussed earlier will probably encourage real-estate investment. More investor funds will certainly be going into real estate as a result of ERTA in the 1980s. But because of local rent-control problems, little of it will go into new housing.

Is the All Saver terrible for the country? No, not really. It will channel the money of a lot of middle-class folks into residential real-estate loans. Why? Because the law provides that any savings institution taking All Saver accounts must channel 75% of any funds raised into residential financing. The Federal Government, by authorizing the All Saver, will be subsidizing real-estate loans. It will help savings and loan associations draw funds away from the more efficient money funds. None of this will solve the problem of affordable housing, and the Administration will still have to address that problem. In my view, the All Saver and more liberal depreciation allowances will not bring monthly payments for the new home buyer down to affordable levels.

CHAPTER 11

Will the Boogie Man Getcha?

MANY PEOPLE do not take advantage of the many tax-shelter opportunities because they believe it invites IRS scrutiny. "The IRS will screw me to the wall if I get into equipment leasing," was the comment of one executive who came to me for tax-planning advice. The fact is that the IRS has the facilities to audit only two taxpayers out of every hundred. By taking advantage of tax-shelter opportunities, you probably quintuple the odds of an audit to one in twenty, but an audit is nothing to fear! I was audited almost every year because I had a high gross income but paid no taxes. The results were always favorable to me. I sent my accountant to the meetings, and never gave it a thought.

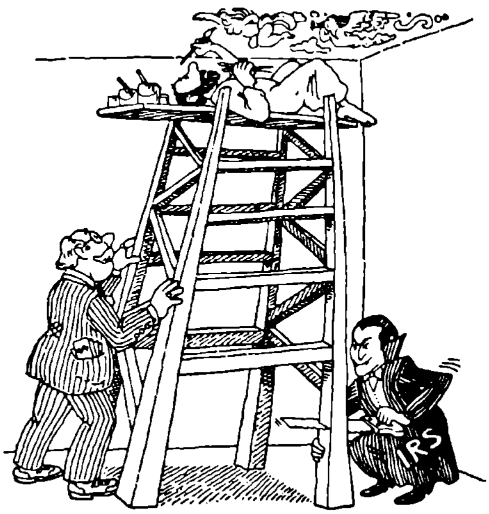
The IRS will typically settle a dispute for fifty cents on the dollar and will rarely litigate an issue unless there is a precedent they want to set by getting a particular case in the lawbooks.

It was not until I went public by giving lectures and writing books on tax avoidance that the IRS began a five-year investigation (spending over $2,000,000 in taxpayers' money) to try and pin something—*anything*—on me. The IRS likes publicity, and they get

that by going after high-profile people. They will go after a Reverend Moon, but not a Billy Graham. They love to indict movie stars (like Charlie Chaplin), business tycoons (like Aristotle Onassis) and tax-avoidance specialists (like Harry Margolis and me). Only about four hundred people per year go to jail (for sentences averaging three months) in a nation of some 100 million tax chiselers. The odds of your being one of them are infinitely small—unless you go high profile!

The government has been sending the public mixed signals for years. Congress passes laws like ERTA, telling you to put your time and money into areas where you'll get wonderful tax breaks. The IRS sends out another message: "Don't do too much tax sheltering or we will consider it abusive." The answer for you lies in doing what you feel comfortable with, knowing the law, and not allowing yourself to be put into a mental state of paranoia with regard to the IRS. After seven years of intense pressure from the IRS (who regard me as their Number One enemy), I discovered that the worst they can do to you is in itself a learning experience. This is not Russia, and they can't kill or torture you—though individual IRS agents would love to have those powers. If you keep good records and take advice from a competent accountant, the odds of getting into any difficult situations with the IRS are infinitely small. They are not Boogie men, and their power is not infinite. I have learned that from firsthand experience.

We still live in a wonderful, relatively free, country. In spite of IRS efforts to shut me down, I have lectured to thousands and churned out three bestselling books that have cost the IRS billions of dollars in saved taxes. If they can't shut *me* down, your odds of survival are infinitely greater. The IRS for six years tapped my phones. They used to open my mail. They posted agents at my gates to take the license numbers of visiting cars. They arranged for gestapo-like interrogations to intimidate my friends and business associates. Yet it was clear they operated mostly on bluff. They are paper tigers who can be fought and beaten. Tax-rebel organizations have sprung up in most localities and, while they used to be considered "lunatic fringe," they are now part of the mainstream with membership in the forty-million range. These thinking and responsible people are simply trying to send a message to Congress. The message is this:



"Congress lets wealthy patrons give artists a boost. The IRS doesn't always cooperate."

The Tax Code is absolutely absurd, incomprehensible, unenforceable and unconstitutional. Most of these tax rebels simply drop out of the system and refuse to file. They also give up conventional bank accounts and operate with a financial privacy that guarantees they will never be convicted of the misdemeanor (punishable by up to a year in jail) of Willful Failure to File an Income Tax Return.

Although I have always advocated an attempt to understand and abide by the law, my own IRS tribulations and the work on this book have finally convinced me that the tax-rebel position is much more sensible than I used to think it was. The tax laws really *are* absurd, incomprehensible, unenforceable and unconstitutional. There are actually two tax laws. One is for the wealthy. They can afford expert tax advice and be carefully placed into tax shelters. The wealthy will forever be tax-free, totally insulated from any unpleasant contact with the IRS. The not-so-wealthy person who has the intellectual ability and time to start a business or invest in tax shelters like real estate can also stay tax-free. Just keep a low profile! The unfair tax law is for the working stiff who doesn't know the law and doesn't care to know it. He will apathetically go through life as a wage slave, having the greater part of his earnings deducted at

source for federal, state and local taxes, and "benefits" like Social Security that he may never live to see. If you bought this book you are probably neither super-wealthy nor apathetic. Together with *Win Your Personal Tax Revolt*, my book on legal tax avoidance, this information should keep you free of taxes, and out of hot water too. I won't let the Boogie Man get you!

So that it will never be said that I'm a critic who offers no solutions, let me add that I have long been in favor of a one-sentence tax law that sets a 10% or even 15% tax on gross receipts no matter what the source and no matter who is the recipient—individual, corporation, foundation or church. There would be no complex bookkeeping, no need for accountants or tax lawyers, and the IRS itself could be 99% abolished. This would be similar to the Hong Kong system, which has produced a very high standard of living and provides for very good social services too. Probably President Reagan would be happy to institute such a system, but the political realities and a majority of Fuzzy-Thinking Leftists still in Congress have made any such drastic change a political impossibility.

If you'd like to keep up with my latest intelligent views (or mad ravings—depending upon your point of view) on tax avoidance and investment, toss two bucks cash into an envelope. Send your donation for postage costs to me and I'll put you on the mailing list for updates as published in my *Tycoon Newsletter*. You'll see interesting ads, provocative thoughts. If you believe in free enterprise, and economic independence for yourself, you'll love the *Newsletter*. If you don't like it, I'll send your two bucks back.

CHAPTER 12

Tax Planning after ERTA and Beyond

JUST AS marrying solely for money is a bad idea (ask anyone who tried it!), making decisions solely because of tax laws is equally foolish. The laws change overnight, and you may get stuck in an undesirable situation. On the other hand, an old Jewish mother's saying is "It's just as easy to fall in love with a rich boy (girl) as a poor one." Applying that to taxes, "It's just as easy to get into a *tax-favored* occupation or activity as it is to get into a wage-slave job where tax deductions will consume up to 60% of what you earn." Accordingly, before getting into a new business, profession or investment, it is absolutely necessary to study the ground rules set forth by Uncle Sam (even if they are only temporary). Play only those economic games encouraged by government where you stand a good chance of keeping all, or the major part, of what you earn. You don't want to work Monday, Tuesday and Wednesday to pay taxes, keeping only what you earn on Thursday and Friday! Do you?

Some people enjoy hating and fighting the IRS so much that they waste time on petty chiseling. But the rules let you do what you

like and still keep your taxes at Zero. Most of us would not enjoy getting up every morning to be batted around in a prize-fight ring. But to become a champion like Muhammed Ali you must look forward to sparring and keep training for big fights. You will have to spend a few hours each day learning and keeping up with the latest rules and planning your Zero tax strategy. All of which leads me to *Rule One* for a happy and successful life:

1. In choosing work or investments, *always* look for things that give you a kick! Get into activities that allow you to do whatever it is that you personally find enjoyable. For some of us, sitting alone in front of a computer or word processor "creating" a book would be ecstasy. For others it would be boring. You must choose what for you is pleasant. Will you work with the type of people you enjoy? What is the location you find agreeable? What product or service do you find satisfaction in producing? Getting a fix on your own goals is *far* more important than any other consideration. Of course, if *money* is extremely important to you, you might be willing to do something unpleasant (for a short time) to gain an exceptional financial reward. That is how I felt about fixing up old "yuk" properties a few years ago. I did the dirty work to have financial independence today.

Before you consider the tax aspects of an investment or activity, you must make an estimate of the psychic and financial rewards the activity offers. If you are single (or interested in this sort of thing) you might want to operate massage parlors, not so much for the money, but more for the "fringe benefits." Millions of very happy people are opening bookstores, boutiques or health-food distributorships because that's their thing. They would be in that line of work whether taxes were Zero or 80%. But for most of us, "reward" means monetary compensation that will support a standard of living we aspire to. Work is often just a means to an end, and that end is simply getting through life until next payday. If you work (or invest) just to make ends meet you won't be nearly as happy and satisfied with life as those who have a goal or truly love what they are doing. Remember, life is short. Our productive working years are even shorter. Making every day a wonderful and happy time for yourself is where satisfaction's found. Can you make more money, pay less taxes, and find happiness too? That brings us to *The Big Question*. Ask yourself:

"Starting you own business is the way to do something you enjoy and get tax credits too."

2. Can the after-tax benefits of my favorite activity or investment bring me the kind of money I need to live and meet my every desire? The tax code taxes Ordinary Income at the highest rates. If you are part of an upper-middle-class couple earning about $44,000 each, you are in the top bracket. Federal taxes will take half of every additional dollar you earn, and state taxes will probably take another 10%. With Social Security deductions, pension plans, and other deductions, it would not be unusual for you to work Monday through Thursday to keep only what you make on Friday. If you are not in the 50% bracket now, because of inflation you soon will be. Most of us feel that we are willing to work one day a week for the government and give up 20% of our earnings, but to my view (and lots of people agree) any more than that is confiscatory. At some point, all of us decide we must *do something* about our taxes. The first step is usually buying a book like this one. Any perceptive book about tax avoidance will tell you that *tax laws discourage working for a living.* Those who earn wages, salaries, commissions or fees suffer the greatest tax burden. Owners of active businesses have virtually no tax burden if they do a little creative tax planning. It probably wasn't intended to work that way, but as government's expanding operations needed more money, it was easier to deduct more out of people's paychecks automatically—using employers as

collection agents—than to rely upon "voluntary" self-assessment. Whatever the reasons, any intelligent person who as an employee has moved into a high bracket must come to the realization that "working for a living" is not economically sensible. For you it has probably become necessary to seek out some economic activity that enjoys tax-free, or at least tax-favored, status.

That brings us to the *tax-shelter industry*. The tax-shelter industry is probably the biggest industry in the United States. There are no statistics on it, but the amount of hours expended and revenues generated by accountants, lawyers, promoters, investors, salesmen and people like you who are looking for shelters probably exceeds the time and money spent on our other major industries. That includes automobiles, liquor, dope, organized crime—or any other economic activity. Tax shelter sales and service is an industry *you* might consider joining, at least on a part-time basis. Generating tax savings for yourself is going to be largely a matter of having knowledge. Very basic knowledge could be obtained by starting with something as simple as taking an H & R Block tax-preparation course in your own neighborhood. You might spend a month working part-time during March or April as a tax preparer. Several of my friends earn between $50,000 and $100,000 per year doing just this. (Don't expect this your first season, but $10,000 or $20,000 is possible.) Income generated by putting your clients into tax shelters is infinitely more! By preparing taxes for wealthy taxpayers, one makes contact with investors eager to reduce their taxes. By watching ads you can contact hundreds of tax-shelter promoters. You can look at their deals and soon set up your own. Eventually you can set up multi-million-dollar tax shelter deals for a piece of the action, thereby generating sheltered cash flow for yourself and good shelters for your investors. The February 1981 issue of *Money Magazine* had a story about an individual who was earning over a million dollars a year tax-free after only three years in the *tax shelter business*. How did he do it? He simply kept in touch with various government agencies to learn about the latest "incentives." I call them "government giveaway programs." He called upon the Housing and Urban Development office in Los Angeles and learned that if anyone constructed apartment buildings for moderate-income or elderly people in communities with small populations, the Federal Housing Administration would provide low-interest financing for

93% of the cost. This is called a Section 1515 Program. When 93% financing is harnessed to the new 15-year Accelerated Cost Recovery System and the other tax benefits available to investors in low-income housing, it is possible for the promoter to offer an investor a deal where for every $10,000 invested, there can be an immediate $40,000 tax saving. The promoter can generate cash by taking a builder's profit on the construction of the project (normally 10% on the total cost) and another commission on the sale of partnership units to the investors. Yes, there is paperwork. Yes, it gets technical. But anyone can do it! The opportunities are there. The tax-free cash profits on a single deal could be hundreds of thousands of dollars.

Another government subsidy program gives super tax benefits for renovating old structures in "historic areas." Most communities now have such areas, and it only takes a few phone calls to the local planning commission to find out about them and to discover how you can organize a rehabilitation tax-shelter deal. Once again, the passive investor in such a deal may double his money—but the big attraction is the immediate 4 to 1 write-offs and the 25% tax credit. How does it work? Very simple. Under ERTA, if you buy an old warehouse for $100,000 in "Old Sacramento" or "Historic Baltimore" or thousands of points in between, and if you borrow a million to remodel it into a store, offices or apartments, you get a $250,000 tax credit. With financing and investor partners, you as promoter may only invest ten bucks, but part of the investment tax credit can be yours. Why? Because the government *encourages* people to promote this sort of development. Tax credits can be carried forward for fifteen years to satisfy all tax obligations. There is no sham. No tax evasion. The deals are legitimate. The tax benefits result from an *intentionally created loophole.* The Congress has said, in effect, "If you are a highly paid surgeon, we will take half of what you earn—but if you put together or invest in a project of the sort we are trying to encourage, we will give you a tax pass on present and future income." If you Dr. Surgeon, promote deals by finding property, arranging for financing, and taking care of the myriad details involved, the government will permit you to have an unlimited income from surgery, all of it tax-free.

Are there risks? Yes. The passive investor always faces the risk that a promoter will botch up and/or never complete the project. If that happens the investor can lose his money and receive no tax

credit. But risks can be guarded against by "completion bonds" and other guarantees a good promoter will provide.

Can you personally get into the tax-shelter business? If you have time, common sense, and an IQ of 75, you can! How to do it? First do some reading. My earlier book *Think Like a Tycoon* and other books in the reading list will give you a basic knowledge. The rest is up to you. You can start by apprenticing yourself to a Big Wheel in the business, as I did twenty-five years ago when I offered my services as a flunky, free of charge, to the late Bill Zeckendorf—a real estate tycoon of the first magnitude. After six months with him I had the equivalent of a double Ph.D. in real-estate development. Or you can do as a friend of mine, Mark Cullen of Sacramento, did. He simply bought a run-down house for almost nothing, fixed it up and sold it. Then he bought larger properties, spreading the word through advertisements and personal contacts that he was willing to take in outside investors who wanted tax shelter and also expected reasonable profits on their investments. He became a "general partner," his investtors were "limited partners." In a few years, he was doing almost as well as the man in *Money Magazine*. Anyone who wants to be put in touch with one or more of the (hopefully) honest promoters among the mob of incompetents and thieves in the business can write to me for a list. Send a stamped, self-addressed envelope. If you don't want to set up deals yourself, the way to find good syndicators is to look for those with *good track records.* Your own accountant or tax lawyer will often know quite a few. But as I've said in this book so many times, a do-it-yourself deal is always better than a "red-ribbon deal" in which you passively hand over a check to someone else. No one will look after your money with as much concern and skill as you do.

I could go on talking about real-estate deals for many more pages because there are all sorts of development or investment projects that make good sense economically. They will also shelter all your income: past, present, and future. Real estate has been the darling of Congress for 70 years. There are 1,001 loopholes or ways to put up X dollars, and gain 4X in tax benefits, if you merely take the time to read the current literature in the field. (See my book and periodical list at the end of this book.) To me, real-estate deals are just about the best things to generate good returns with little risk or investment, at the same time keeping your taxes at Zero. A few thousand dollars, a few years, and considerable effort made me a Marin Coun-

ty Millionaire. It did the same for dozens of my friends and students who took the Bill Greene Tycoon Classes on my front lawn. More about that later.

Are there other businesses that can serve as tax shelters and also make money? Of course there are! If after reading this book to this point, if you don't have any specific ideas, let me throw out a few more.

Livestock

At a Howard Ruff seminar not too long ago, I met one of Howard's friends. He pitches horses at the Ruff Times Seminars. Pedigreed race horses. You don't have to own your own farm to invest in livestock. It can be done through a promoter/farmer who takes your money, then selects and raises the animals. Tax benefits arise from the fact that under the ERTA rules, animals are given a useful life of five years. There's also the 10% investment tax credit. When your prize $100,000 bull or race horse sires offspring, *there is no tax to pay* on the newborn animals. But you may be richer by $50,000. The cost of feeding, sheltering and caring for animals can be borrowed, yet it is all deductible. If additional deductions are needed "up front," accelerated depreciation can be taken. A herd, covey, flock or pack of animals can be built up over a few years, generating many deductions and a vastly increased net worth for their owner. Upon disposition (when you sell out), there can be a 1031 tax-deferred exchange for other livestock, or at worst the animals can be disposed of at capital gains rates. Could you breed livestock for fun, profit and tax shelter in your own back yard? Maybe. Let's say that you have enough space to raise a prize animal. If you pay $10,000 for a pair of prize parrots (and if you can convince the IRS that your venture was for profit and not for fun) you could probably leverage the purchase price by putting $1000 down and letting the seller carry the rest of the price for five years. In year 1, with a little luck, you'd get a baby parrot, and maybe five more in the next few years. Assuming a bull market in parrots, your parrots might be worth $8000 each in five years, for a total net worth to you of $76,000. You might be able to sell the birds on the installment plan and convert them into paper receivables. No tax would

"If animals appeal to you, raising them for fun, and profit offers ACRS write offs and tax credits. (Note: To get the deductions, the IRS says you can't have fun.)"

be due except on interest receipts and on the portion of the sales price that represented capital gain. The capital gains tax would be a maximum of 20%. During the parrot-raising period you could write off $2000 per bird per year (on ACRS) together with all your business operating costs and your trips to Brazil for the annual Bird Wholesaler's Conventions. You might get tax credits too. Best of all (something we haven't mentioned yet in this book) if you formed a Domestic International Sales Corporation (DISC), you could sell the parrots for all cash in an *export deal*, and your corporation would pay no tax at all on the profits. The special tax pass for exporters was not a part of the ERTA Law of 1981. It was enacted much earlier, around 1972, to encourage exports. I mention it here to let you know that you must not wear blinders when looking for loopholes. Some of the best goodies were started years ago. They are there for those who take the time to find out about them and wish to use government incentive programs to reduce or eliminate taxes. The DISC allows any corporation engaged in export to accumulate profits tax-free. None of these benefits are available to mere wage slaves. To pay little or no taxes you generally have to *get into your own business*. One of the best businesses to go into under the ERTA is leasing.

Leasing

There is nothing new about leasing. The new law just makes it better, taxwise. Suppose you purchase an Apple computer for $5000. You lease it to Dr. Doolittle, who will use it in his business. The lease price is $200 per month for five years. On the basis of the lease to Doolittle, you are able to borrow $5000 from Chase Manhattan Bank with an agreement to pay back the bank at the rate of $150 per month. Presto! You have created a cash flow, or income for yourself, of $50 per month by leasing a single machine. You also get a 10% tax credit, and can write off the equipment over five years using accelerated depreciation (150% of the straight-line rate, declining balance). This permits a $1500 first-year write-off. Not bad for not putting up a dime! ERTA liberalizes prior rules on leasing by now providing a "safe harbor." What this means is that if you follow the rules set forth by Congress, the IRS cannot challenge the deal. The only negative provision in the 1981 law is that, to take advantage of the new rules, the beneficial interests in leased property must be in a corporation, not an individual. But an individual may still get the benefits of leasing by following the old rules.

Old Rules	*New Rules*
Lessor must be "at risk" for 20% of asset cost.	Lessor must be at risk for only 10% of asset cost.
Lessor must demonstrate "profit motive" for lease, not just tax benefits.	Tax benefits may be considered in lessor's evaluation of profitability (presumably no lessor would go into a lease that lost money for him even after considering tax benefits).
Lessee or related party may not have provided a financial guaranty on lessor's purchase money loan.	No such rule (subject to lessor being at risk at least 10%).
Property may not be "special use," i.e. custom-made for lessee. It must have some general commercial use at termination of lease.	No such requirement.

Old Rules	*New Rules*
Lessor may not have right to force lessee to purchase property.	No such requirement.
Lessee may have option to purchase property, but it must be at fair market value.	No such requirement.
Tax benefits (depreciation and credits) go to the beneficial owner.	Tax benefits can go to lessor, lessee, or even a totally unrelated corporation to which bennies are assigned. New law provides that tax benefits may be sold and traded.

The purpose of the new law is to encourage businesses to acquire machinery and equipment because it is cheaper (in terms of up-front cash outlays) to lease than to buy. The tax benefits of leasing will presumably be passed on to the lessee in the form of lower costs. Individuals are not allowed to get the liberalized benefits because of the potential for "tax-shelter abuse." The latter argument seems illogical. If corporations are given the rights to "tax-shelter abuse" in order to encourage capital spending and modernization, why not give the same rights to individuals? My prediction is that this experiment will be much changed over the next few years. For individuals who form operating corporations and get into the leasing business, the leasing rules amount to a tax pass.

Research and Development

In *Think Like a Tycoon* I mentioned that inventors can be worse for your pocketbook than the IRS. They are usually a bottomless pit demanding more and more money for research and development. Accordingly, in *Tycoon* I gave suggestions on how to avoid getting in too deep with them. On the other hand, if *you* are the inventor using *your own* funds to develop a new product, and having fun while doing it, R & D is one of the best tax shelters around. Suppose you like tinkering with electronic parts and you set out to develop an at-home consumer computer program that will allow ap-

propriate software to mop the kitchen floor, feed the baby, and automatically melt snow on the driveway—while simultaneously developing a buy-sell strategy for Pork Belly Futures. The money you put into the project is deductible as a business expense in the year spent—particularly if after use whatever you bought has no further substantial resale value. Under ERTA, if you had no research and development expenses during the past three years, you could *also obtain a 25% credit.* Is there a new product you'd like to develop? How about a better fishing reel? An electronic device to predict the outcome of ball games? A computer program to teach your kids to read? The fun you could have and the deductions you could get are limited only by your own imagination and ingenuity. If you invest in someone else's research-and-development project, you can still get the fast write-offs. These give you substantial early-year tax benefits if the money used to purchase equipment and pay salaries is largely borrowed. But as an investor you must be "at risk" to the extent that you take deductions. There may come a time when you have to pay off a substantial IOU in limited-partnership R & D deals—if the project doesn't ultimately make money. Also, in a deal where you are only a passive investor, you *can't* take your share of the 25% tax credit until and unless the R & D project has generated sufficient profits to result in a taxable income sufficient to offset the credit. In a do-it-yourself project, the commercial success of the project is irrelevant so long as there was the *intention* to develop a profitable product.

Oil and Gas Wells

Drilling for oil or gas is difficult to do as a do-it-yourself project, unless you want to spend a year of your life learning the business by wildcatting or working with someone else. The best most of us can hope for is to find an honest and competent promoter with a good track record who will offer us participation in a limited partnership. ERTA doesn't really affect oil and gas drilling except to reduce the Windfall Profit Tax that was enacted when oil and gas prices were decontrolled. Many volumes have been written on this complicated subject; this brief mention will merely raise your consciousness.

Here's how oil and gas deals work as a tax shelter: IRS regulations provide that intangible drilling costs (about 75% of the cost of drilling a new well) may be expensed in the year incurred. As a result, very large first-year expenses can be deducted, even if arrangements have been made to borrow or actually pay those costs in later years. "At risk" rules apply. Tangible drilling costs include: geological surveys; all expenses incurred in connection with surveying, site and road preparation; construction of derricks, tanks, pipelines. Permanent resaleable equipment like deisel generators used to power pumps must be written off over the usual five-year life, but they qualify for the 10% tax credit. Most partnerships arrange for the financing of 80% to 90% of the drilling costs. This permits write-off of three or more times the amounts invested. If your well is a dry hole, there is no income. If a well hits, debts are paid off out of profits, and the well-known depletion allowance shelters around 20% of the cash flow resulting from sale of the oil or gas. The rules are many and complex. Many of the big oil companies sponsor limited partnerships. They sell a package deal with dozens of drilling projects to investors. The law of averages "guarantees" an economic return as well as tax shelter. If a major law firm issues a letter of opinion on the deal, you can normally rely on their opinion of the tax shelter aspects.

The Ultimate Tax Shelter

Prior to ERTA, after ERTA, and at any conceivable time in the near future—so long as America pays homage to the concept of being a capitalistic country, the tax law and all other laws should encourage individuals to start and to run their own personal businesses. Henry Ford put together his first cars in a barn behind his home. Edwin Land, who invented the Polaroid Camera, did the same thing. Hewlitt and Packard, fathers of the consumer electronics business started in their garage. The giants of tomorrow will come from the backyard projects and offices-at-home of today. The government sends mixed signals. Sometimes it creates regulatory burdens so tough that small-business people can't cope and must drop out. At the same time, tax laws and many government-aid pro-

grams try to help wage slaves set up shop in their basements in order to invent or perfect the big-selling products of tomorrow. Many successful companies are involved with high technology. But not all recent successes are involved with electronics or science. Amway Corporation and Shaklee are relatively new, enormously successful private companies selling roughly a billion a year each of product. These companies, and many like them, were recently started by people like you who may originally have been looking for ways to supplement and shelter their wage-slave incomes.

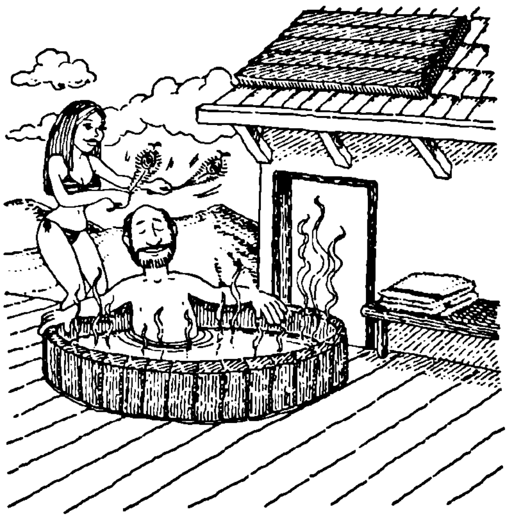
ERTA makes starting your own business even more attractive than it has been in the past. The faster write-offs and expensing of equipment used in the business virtually eliminates taxes. The tax law has always provided that all ordinary and necessary expenses incurred in connection with a business you own are deductible. The beauty of having your own operating business is that expenses and acquisitions can be timed to provide deductions or tax credits to shelter outside income as it materializes. With a little thought and planning, businesses can be developed to complement your favorite activities. A pleasure yacht is not a deductible expense. But a commercial charter yacht or fishing boat is. You simply take other people on it for pay, or you lease it out to corporations. Thus all expenses related to your yacht yield you depreciation write-offs and/or tax credits. If yachting doesn't appeal to you, decide whatever it is that you like to do in life. Construct a profit-making business around whatever it is that gives you pleasure. Body building and exercise? Jane Fonda, who is a physical fitness freak, decided she was spending too much on coaches and equipment. She set up an exercise studio with expensive Nautilus equipment and the best physical fitness experts money could buy. She gets her own pleasures free, and probably shelters part of her movie-star income. She will get a large write-off and come out ahead if the business goes belly-up. More than likely, Foxy Fonda's Fysical Fitness Centers will also add to her already colossal net worth.

Tax Revolt was 400 pages devoted to the concept of combining a pleasurable lifestyle with adroit tax-avoidance maneuvers so that the government, in effect, subsidizes whatever turns you on. With your own business, so long as there is *an honest intention to make money*—sooner or later—you can deduct most everything:

phone bills, food, travel, rent and housing expense, automobile, entertainment, etc. *You* win, because your own money—the money you earn by working or investing—can be spent the way you want it to be spent. The *government* wins, because when you go into your own business you stimulate the economy and create jobs. You may even create the corporate giant of tomorrow! Every business starts with a crazy idea, a little work, and tax incentives to mitigate the setbacks faced by every new operation. The tax code clearly discourages working for a high salary or being a passive investor. When you "work for a living" most income earned will be taxed at over 50% (when federal, state and local taxes are considered together).

The biggest mistake made by wage slaves is that they think they must keep a job to earn a living. *The fact is that, if you focus on living the kind of life you want to live, and engaging in the kind of activities you like, your living expenses will be provided tax-free as if by magic.*

Stop and think about your goal. Instead of earning a living, think about how to support a desired lifestyle with a business of your own. Don't quit your present job until that business is established and running sufficiently well to pay your bills. Once you have a business, forget about generating salary or take-home pay for yourself. That would only produce taxable income. Instead put all your time into the business, and let the business pay your expenses. Think about how to increase your net worth by reinvesting in the business. Buy or start additional side businesses to give yourself good financial reasons to do what you really want to do. Do you like skiing? Start a coin-operated laundry (or any business locally needed) at Aspen. Do you like skin diving? Buy a glass-bottom boat and hire someone in the Cayman Islands to run it for you. Do you like flying or travel? Buy a helicopter with 5% down and start an "airline" in your own home town, shuttling people to the nearest major airport. You can do big things! Form a partnership with a flying freak who will do the helicopter piloting and an accountant who will keep the books. An accountant or lawyer can provide investors. They need tax shelter and will lease the plane to you. Your investment may be Zero. Your benefits may include free courtesy passes on major airlines (a tax-free fringe benefit), income, prestige, and hopefully even a profit. You can do anything! I recently started a bank and named myself presi-



"Marin County residents like Bill Greene can get tax credits by using solar heat for their hot tubs."

dent. It was all "on paper." The total cost was under $2000 and I didn't have any partners. The ink was barely dry on my new charter when I was offered a 500% profit on my investment.

Become a *consultant* like me! I write books for which I am paid very little. But people like you read those books and, thinking I am a guru, want advice from me. I charge a $20 bill for a short phone conversation. Or I answer questions submitted by mail for another $20 bill. For a longer half-hour personal conference I charge $250—plus transportation if I go to see you. Needless to say, I won't go anywhere except those places I want to be. Sometimes I give seminars or inspiring lunch speeches to service clubs. I'm available for a minimum fee of $1000 per day. I charge less if I can sell my books. I am not telling you this to brag or peddle my services, but to suggest that *you could do the same.* A personal service business in which you consult or speak for a fee involves only one thing—you! Get yourself some expertise in a field people want to hear about. It can be pet care, life on Mars, you name it. It is relatively easy to become an expert. Just choose an area that interests you. The next step is promoting yourself. You may have to start as I did by giving free classes on my front lawn on "How to be a Real Estate Tycoon." No matter how tongue-tied or imperfect you are at first, practice will

eventually make you a good transmitter of knowledge. My field is starting your own small business, real estate and tax avoidance. Your field should be whatever interests you. It need not be a "hot area." Other people will be interested in almost anything. I have a friend who makes a living producing and selling an esoteric musical instrument that 99% of the population will never hear, see or be aware of. Yet if 1% of the population of North America buys his instrument at its $1000 price tag, he will be a billionaire. As it is, he has sold very few, but makes a living by being paid to demonstrate the instrument on college campuses.

With your own business, whatever it is, the business itself can pay all your expenses. It can pay your health insurance. There is no tax when corporate income is spent this way. You may want to form a corporation—or starting your own business could be as simple as opening a checking account, and printing up stationery saying "Yourname Enterprises." For federal tax purposes, to start a business you need no licenses, permits or anything else, you can start generating business expenses, tax credits, depreciation deductions and so on by merely opening a lemonade stand on your front steps. The IRS in an audit may demand proof that you are not "playing at a hobby." You must show a serious intent to earn profits. But if you have copies of letters or other proof that you were attempting to generate sales or income, you will get the deductions.

From time to time we see government-issued statistics on how many millionaires there are or how many new millionaires were created recently. At a 15% rate of interest, for instance, a million-dollar net worth would produce a pre-tax income of $150,000. The way I figure it, anyone who has started his or her own business to generate $150,000 or more per year is the *equivalent* of a millionaire. The government probably creates its statistics from an IRS list of people who pay taxes on an income of $150,000 or more.

In my own circle of acquaintances who have their own business most generate little or no taxable income. They work at increasing their net worth and living well. The government doesn't know they exist. Some are not required to file tax returns under present laws because their reportable gross income is below the minimum $3500 filing requirement. Others have arranged their affairs to generate minimum income taxes at whatever level they feel

is a "fair" contribution to running our government. Jimmy Carter in his first year as President had so many deductions from his peanut business that he was not required to pay any tax. He made a $6000 *donation* to the treasury! For those who are paranoid about being indicted by the government for tax evasion, an anonymous donation to the Treasury's "Conscience Fund" (Keep the receipt!) might provide you with an interesting defense to tax evasion charges, *if* the IRS ever decided that you should be one of the 400 people per year (out of 100 million prospects) they decide to put in jail. Realistically, the odds of the IRS picking on you to make an example of you are almost zero. Just don't write books or give lectures on the subject of tax avoidance! Don't be like me. *Keep a low profile.*

The Final Solution of the Ultimate Problem

If you start your own business and devote fulltime energies to it, you could be faced with the ultimate problem. You wanted to provide for your lifestyle, but you did things so well that you soon are awash in money. Your product has caught on so well that, like the owners of Apple Computer, you find your product selling hundreds of thousands of dollars worth; then millions; then a billion. You accumulate staff, accountants, lawyers, and your little spare-bedroom business is soon generating a multi-million-dollar annual cash flow. You go public with a stock issue of 20% of your stock. That makes you a paper billionaire. You simply can't find ways to spend enough, invest enough, or shelter your massive income. You probably wouldn't mind giving the government half your income—but you have the gnawing fear (quite correct) that the government will simply waste your money by hiring more bureaucrats to cause more problems than they solve. So as a matter of principle, you decide that ordinary tax shelters will no longer work for you.

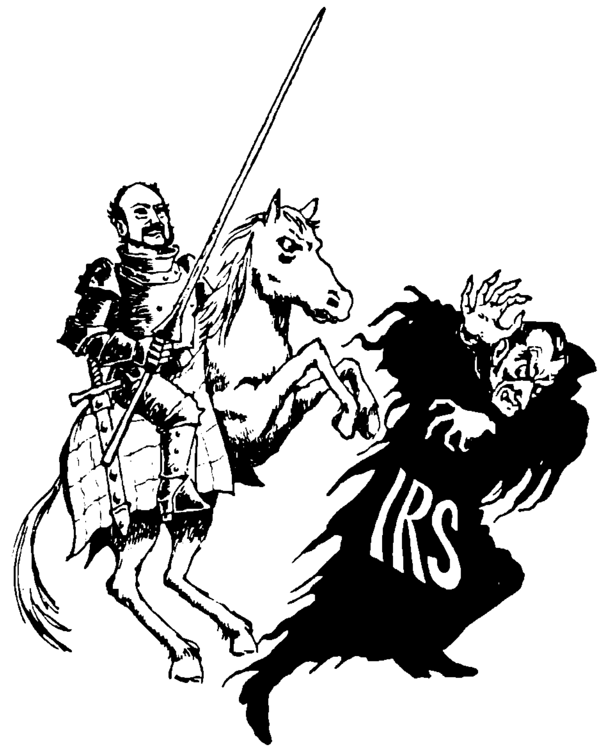
The final solution of the ultimate problem was around before ERTA, but ERTA makes it easier to implement. Start a private foundation, non-profit corporation, church, or your own private do-good operation of one sort or another. If you give appreciated stock or property to your organization, you get a tax deduction for the *appreciated value*. The foundation enables you to do the things you

feel the government should do—but doesn't. In many ways, a private non-profit organization makes you something between the equivalent of a mini-President of the United States and God. *Tax Revolt* showed how to set up such organizations. You can spread the gospel (if that's your thing) with a chain of tax-free non-profit radio and TV stations, satellites and newspapers. You can encourage and give tax-free grants to inventors, artists, scientists, or just about anyone for anything. You can even provide for your special activity to go on for hundreds of years after your death.

Interestingly enough, you don't have to be a millionaire for a private foundation or a non-profit organization to help you attain the kind of tax-free life you want to lead. If you are now a poor wage slave and your "thing" is putting on ballet productions (or any cultural, educational, scientific or religious activity), for under $50 in most states you can form your own non-profit organization or church. This can be your tin cup to use for receipt of juicy donations. Use *How To Form Your Own Non-Profit Corporation* (see Resource and Reading List at back of this book). You can then apply for grants to any of the well-funded foundations or organizations who have more money than ideas on what to do with it. You don't have to be a wage slave or start a business to get rich. You can position yourself at the receiving end of the cornucopia.

And so as the sun sets in glorious Mill Valley, California, and I say "Goodbye until we meet again," we have come full circle. The final solution for those who have too much money and pay taxes is the same solution for those who have too little money. If you have a noble calling and don't want to bother earning a living or paying taxes, you can form a non-profit organization and convince private or public foundations (who are awash in funds) to provide you with grants to do your thing. Grants can cover research, travel, living, and all related expenses. They can support you for a lifetime. People who donated money or assets probably did so to avoid taxes. You avoid taxes by taking their money. If you raise money privately for your non-profit organization, your donors get deductions and you get tax-free cash. When you get grant money as an individual, it's tax-free too. Why? Because grants from foundations for worthy projects are tax-free. If you win a big prize for something you've already done (like the Nobel Prize), that's tax-free too! The new Ad-

ministration wants to encourage the private sector to take over more health, education and welfare projects. The present administration is encouraging you with tax incentives. Go get 'em!



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Secret IRS Manual for Special Agents. If you are paranoid that the IRS is after you (and who isn't) this book will alert you to most of their dirty tricks and despicable techniques. My reprint was obtained under the Freedom of Information Act and is a machine copy (with a few illegible pages) of their top-secret "dirty tricks" book. $22.70 includes postage and handling. Order from Bill Greene, (415)383-8264.

Tax Angles Newsletter. This is put out by one of my competitors, and it is excellent! We made a deal to get *our* readers a one-year subscription at the regular price of $45 (12 issues) PLUS a free $15 book, *Taxpayer's Counterattack*. We may send you a different book if in our opinion something better comes along. You can order *Tax Angles* direct from Bill Greene and pay with your Visa/MC number or check.

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PEOPLE

I am frequently asked for the names of good lawyers and accountants. The big firms are generally competent, but bill you at $100 per hour and up. For Californians desiring a good tax preparer especially competent in real-estate matters I suggest Dick Lee, 1085 Ravoli Drive, Pacific Palisades, CA 90272. Phone: (213) 454-4641. If you live somewhere other than California, the best way to find a good tax man is to attend a few seminars on taxation and then pick a speaker who has the expertise you need. That's how I found Mr. Lee.

In my non-profit *Tycoon Newsletter* (subscription $2 per year) I often recommend companies and individuals I feel can do competent jobs in various areas. When I hear of a con game going around, I expose that too.

FREE STUFF

The Big Five accounting firms frequently publish tax-strategy pamphlets, commentary and summaries of the latest tax laws. They are given away free to potential clients. If you want to be on their mailing lists, merely call or write the local office of any of these firms: Coopers & Lybrand; Touche, Ross & Co.; Arthur Young &

Co.; Price, Waterhouse & Co.; Arthur Anderson & Co. Most large accounting firms publish very helpful (free) newsletters too. The "librarian" or "public-relations person" at these firms usually handles requests for freebies.

The U.S. Government Printing Office, Washington, D.C., also puts out surprisingly good material from time to time. If it isn't free, the price is bargain basement. IRS Publication No. 1150, *Tax Havens and Their Use by U.S. Taxpayers*, dated 4/81, was the best guide to establishing and using offshore tax havens that I have ever seen. It is free from the Printing Office or IRS Public Relations Dept. Apparently it was meant for distribution to Congressmen and Senators to shock them regarding tax-shelter "abusers." Their book turns out to be a swell guide to what you can get away with in the legally murky area of offshore operations. Reprints of Congressional committee hearings on subjects of interest to you, and thousands of other goodies are free for the asking. Just request a catalog of publications and ask to be placed on the mailing list for whatever is of interest to you. If nothing else, it will solve your heating problem. How? You will have so much paper to burn you'll stay warm all winter. After reading some government publications which are practically "How to" books on tax evasion, I came to the conclusion that the IRS is encouraging outrageous conduct to justify an expanded budget to control questionable activities that *they* are fomenting.

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